



In the Supreme Court of the United States

No.

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PACIFIC GAS AND ELECTRIC COMPANY,
Petitioner,

vs.

CITY OF SANTA CLARA, CALIFORNIA,
Respondent.

Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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PRAYER

Petitioner, Pacific Gas and Electric Company (“PGandE” or “the Company”) asks that a writ of certiorari issue to review a portion of the judgment and opinion below of the United States Court of Appeals for the Ninth Circuit in this case. PGandE seeks review of two rulings by the Court of Appeals: first, that certain electric power transactions between PGandE and the United States Bureau of Reclamation violate the preference clause of the Reclamation Act of 1939, 43 U.S.C. § 485h(e), unless excepted from the coverage of that clause, and, second, that PGandE had no immediate right to receive over \$50,000,000 held in escrow.

OPINIONS BELOW

The opinion of the Court of Appeals as amended on April 4, 1975 is reported at 572 F.2d 660;* a copy is appended hereto as Appendix A. The order of the Court of Appeals denying Santa Clara's petition for rehearing, granting PGandE's and the government's petitions for rehearing or modification in part, and amending the February 1, 1978 opinion is unreported; a copy is appended as Appendix B. The District Court's first opinion is reported at 418 F. Supp. 1243; a copy is appended as Appendix C. The District Court's opinion modifying its original opinion is reported at 428 F. Supp. 315; a copy is appended as Appendix D.

JURISDICTION

An opinion and judgment of the Court of Appeals was entered on February 1, 1978. Petitions for rehearing were timely filed by Santa Clara and PGandE, and the government moved for modification. On April 4, 1978 the Court of Appeals denied Santa Clara's petition but granted the government's motion and granted PGandE's petition in part (Appendix B). This petition is being filed within 90 days of April 4, 1978. This Court has jurisdiction to review the judgment in question by writ of certiorari pursuant to 28 U.S.C. § 1254(1).

STATUTE INVOLVED

The preference clause of the Reclamation Project Act of 1939, 43 U.S.C. § 485h(e), is the relevant statutory provision:

*The Federal Reporter advance sheet version of the opinion is incorrect in that it includes a sentence ordered deleted by the Court of Appeals on rehearing. The third sentence in the second full paragraph on page 672 of the advance sheet reporter should have been deleted. See Appendix B at 42, paragraph 4.

"(e) . . . Any sale of electric power or lease of power privileges, made by the Secretary in connection with the operation of any project or division of a project, shall be for such periods, not to exceed forty years, and at such rates as in his judgment will produce power revenues at least sufficient to cover an appropriate share of the annual operation and maintenance cost, interest on an appropriate share of the construction investment at not less than 3 per centum per annum, and such other fixed charges as the Secretary deems proper: *Provided further, That in said sales or leases preference shall be given to municipalities and other public corporations or agencies; and also to cooperatives and other nonprofit organizations financed in whole or in part by loans made pursuant to the Rural Electrification Act of 1936 and any amendments thereof.* Nothing in this subsection shall be applicable to provisions in existing contracts, made pursuant to law, for the use of power and miscellaneous revenues of a project for the benefit of users of water from such project. The provisions of this subsection respecting the terms of sales of electric power and leases of power privileges shall be in addition and alternative to any authority in existing laws relating to particular projects. No contract relating to municipal water supply or miscellaneous purposes or to electric power or power privileges shall be made unless, in the judgment of the Secretary, it will not impair the efficiency of the project for irrigation purposes. (emphasis added) 53 Stat. 1194-95, 43 U.S.C. § 485h(c).

QUESTIONS PRESENTED

1. The preference clause of the Reclamation Act of 1939, 43 U.S.C. § 485h(e), requires that a preference be given to certain entities in the sale of federal hydroelectric power generated at reclamation project dams.

Should the preference clause be broadly construed to prohibit the federal government from delivering power to a non-preference entity under a conditional sale arrangement which results in the later repurchase and delivery of power to preference customers, which is necessary to enable the government to meet the long-term needs of those preference customers, and which generates no profit to the non-preference entity?

2. The Court of Appeals held that because completed power sales violated the preference clause they were "void" and "of no effect." 572 F.2d at 677; Appendix A at 33. The Court of Appeals went on to suggest that such sales should be rescinded and retroactively reallocated to a preference customer, even though the power had been resold by the purchaser at cost to its customers.

Whether, consistently with this Court's decisions governing the award of retroactive equitable relief, a federal court may, after declaring unlawful a federal agency's completed power sales to a good faith purchaser who resold low-cost power at cost to non-parties to the lawsuit,

- a) declare void and order rescinded the agency's completed power sales to the good faith purchaser,
- b) recognize the agency's allegedly unlawful refusal to sell power to a third-party to the lawsuit as an equitable defense to the good faith purchaser's contract claim for higher cost replacement power sold to and consumed by the third-party, and
- c) place upon the good faith purchaser the burden of seeking relief against the federal agency for the \$50,000,000 difference in value between the lower cost and higher cost power.

STATEMENT OF THE CASE

This case began, and at base remains, a dispute among preference customers over the allocation of low-cost federal electric power generated at the Central Valley Project in California ("CVP"). PG&E, as a mechanism for the transmission of CVP power and a purchaser on an interim basis of some power destined for future delivery to certain preference customers, is caught in the middle of this struggle.

The formation, functions, and purposes of the Central Valley Project are described in the opinions of the courts below and in *Ivanhoe Irrigation District v. McCracken*, 357 U.S. 275 (1958); *United States v. Gerlach Live Stock Co.*, 339 U.S. 725 (1950), and *Dugan v. Rank*, 372 U.S. 609 (1963). Briefly, the CVP is a water reclamation project subject to "the provisions of the reclamation law." 50 Stat. 850 (1937), 16 U.S.C. § 695(d). As an adjunct to water reclamation, CVP generates electric power at various dams and sells the power not required for its own water pumping needs. The preference clause of the Reclamation Act of 1939, 43 U.S.C. § 485h(e), requires that a preference be given public entities, such as municipalities, in the sale of CVP power.*

*There are other, not necessarily identical, clauses in many federal statutes governing federal power sales. Preference clauses have been included in the following enactments: the Reclamation Act of 1906, 43 U.S.C. § 522; the Raker Act of 1913, P.L. 63-41, 38 Stat. 242; the Federal Water Power Act of 1920, 16 U.S.C. § 800; the Salt River Project Act of 1922, 43 U.S.C. § 598; the Boulder Canyon Project Act, 43 U.S.C. § 617d(e); the Tennessee Valley Authority Act, 16 U.S.C. §§ 831i,j; the Rural Electrification Act of 1936, 7 U.S.C. § 904; the Bonneville Project Act, 16 U.S.C. § 832e; the Fort Peck Project Act, 16 U.S.C. § 833e; the Reclamation Project Act of 1939, 43 U.S.C. § 485h(e); the Water Conservation and Utilization Act of 1940, 16 U.S.C. § 590z-7; the Flood Control Act of 1944, 16 U.S.C. § 825s; the Eklutna Project Act of 1950, P.L. 81-628, 64 Stat. 382; the Falcon Dam Act of 1954, P.L. 83-406, 68 Stat. 255; Atomic Energy Act of 1954, 42 U.S.C. § 2064; the Niagara Project Act, 16 U.S.C. § 836(b)(1); the Colorado River Storage Project Act, 43 U.S.C. § 620e.

The instant case concerns the plan developed by the Secretary of the Interior, a party to this case below, for marketing CVP power. The Secretary's marketing plan includes a power exchange arrangement with PGandE by which PGandE acts as a "bank" for electric power delivered to it by the government. Under this arrangement, set forth in the contract between the government and PGandE referred to below as "Contract 2948A," PGandE purchases federal electric power subject to a commitment to resell an equal amount of power in the future to the government for delivery to preference customers of the CVP.

The CVP power exchange arrangement was developed by the Secretary in 1964 to enable CVP to serve the full demand of then existing CVP preference customers through 1980, even though the power requirements of those customers would grow to exceed the capacity of CVP in the latter part of that time period. The arrangement enables CVP to serve the future needs of these customers which it could not otherwise meet. Among other reasons for adopting this plan was the government's belief that supplying all the needs of these CVP customers until 1980 would provide them with the time and savings to enable them to develop their own sources of power independent of PGandE.

It is impossible to store the power "banked" with PGandE. Accordingly, the power conveyed to PGandE by the government is immediately delivered by PGandE to its own customers. For accounting purposes, the power is deemed sold to PGandE (subject to the government's right to repurchase an equal amount later) and is then resold by PGandE to its own 4,000,000 customers throughout northern and central California, under rates which require that the power be resold at PGandE's cost. In other words, PGandE makes no profit when it resells the federal power.

CVP power facilities are integrated with the PGandE system. Power from these plants flows into the PGandE transmission system along with power from PGandE plants and other resources. CVP customers take power from the PGandE transmission system, not directly from CVP plants. All customers thus receive a mix of power, but those who have received a preference allotment from CVP are deemed to have purchased CVP power transmitted or "wheeled" by PGandE.

CVP power is cheap.* When PGandE buys federal power for banking and resells it at rates which pass on its low cost, PGandE spreads that benefit among all its customers. PGandE customers include a number of municipal power systems and other entities which qualify as "preference" customers, but which do not purchase their power requirements directly from the government.

The City of Santa Clara, California ("Santa Clara") is a CVP customer and qualifies for preference in the sale of power. The government did not, however, undertake to supply all of Santa Clara's needs through 1980. The government was able to supply all of Santa Clara's load from December, 1965 until August, 1971. Thereafter, the govern-

*As the cost of energy from non-hydroelectric sources grows and the value of preferential treatment increases, litigation is unlikely to diminish. Recently suits have been filed in the United States District Court for the District of Oregon by the City of Portland against the Administrator of the Bonneville Power Administration, the Secretary of Energy and 150 other defendants challenging the contracts for the marketing of Columbia River power by the Bonneville Power Administration. *City of Portland v. Munro*, Civil Nos. 77-928 and 77-929 in that court. Other very recent cases challenging the marketing of federal power are *Arizona Power Pooling v. Morton*, 527 F.2d 723 (9th Cir. 1975), cert. denied 425 U.S. 911 (1976), and *Arizona Power Authority v. Morton*, 549 F.2d 1231 (9th Cir. 1977). Thus far this Court has not provided principles of decision for disposing of cases arising under any of the various preference clauses.

ment gradually reduced the amount of CVP power sold to Santa Clara.

PGandE has a contract with Santa Clara requiring the Company to supply the City's electric power needs whenever they are not met by the federal government. As the amount of federal power sold to Santa Clara has diminished and as the City's load has grown, PGandE has, in compliance with its contract, delivered power to Santa Clara to meet the City's needs. Santa Clara refuses to pay for the PGandE power, claiming that the government's withdrawal of power from the City was illegal and that the power delivered to Santa Clara should therefore be deemed CVP power. The disputed funds, essentially the difference in cost between PGandE power and CVP power, have been placed in an escrow account by Santa Clara pending the resolution of its controversy with the government.

During the same period that the government has refused to meet Santa Clara's full demand, the government has sold power to PGandE for banking. The quantity of power sold to PGandE did in some months equal or exceed the amount necessary to make up the difference between the limited amount of CVP power sold to Santa Clara and the City's total demand.

Suit was brought on July 25, 1975 by Santa Clara against the Secretary of the Interior and the Commissioner of the Bureau of Reclamation seeking declaratory and injunctive relief against the reduction in the amount of CVP power sold to Santa Clara. Essentially Santa Clara claimed that it had been unfairly treated and discriminated against in the allocation of power *among* preference customers. Jurisdiction of the district court was properly invoked pursuant to 28 U.S.C. § 1346(2), 28 U.S.C. § 1361, and 28 U.S.C. § 2201.

PGandE was permitted to intervene as a defendant and counterclaimant. The Company's counterclaim alleged that since August 1971 the Company had fulfilled the obligation imposed on it by its contract with Santa Clara to supply electric power to the City but that Santa Clara had not paid PGandE for the power so supplied. PGandE requested the money due it—the funds in escrow. The district court had jurisdiction over PGandE's claim. *Moore v. N.Y. Cotton Exchange*, 270 U.S. 593 (1926).

The district court issued its first opinion on July 23, 1976 on motions of the federal government for summary judgment on all issues and of PGandE and Santa Clara for summary judgment on specific issues. Granting Santa Clara's summary judgment motion in part, the district court remanded the case to the Secretary of the Interior for administrative hearings to review CVP allocations *among* preference customers and entered a judgment of dismissal. The district court did rule, among other things, that the "banking" transactions with PGandE do not violate the preference clause of the Reclamation Project Act of 1939, 43 U.S.C. § 485h(c). With respect to PGandE's claim against Santa Clara, the district court ruled that PGandE's right to be reimbursed for electric power supplied by it to the City would depend on whether a new allocation scheme for CVP power was developed by the federal government during administrative hearings ordered by the court. On November 12, 1976, the district court issued a second written opinion denying PGandE's motion for reconsideration.*

*The trial court did recognize that the sum of monies placed in escrow by Santa Clara was more than enough to preserve Santa Clara's rights against the federal defendants and consequently it ordered the City to have 25% of the funds in escrow disbursed to PGandE and to pay 25% of all future PGandE electric power bills directly to the Company. The original judgment was amended accordingly.

All parties appealed the district court's judgment to the Ninth Circuit Court of Appeals. In its opinion the Ninth Circuit reversed most of the district court's rulings. The Court of Appeals ruled that there was no ground for the district court's order that the government hold administrative hearings concerning how CVP power would be allocated among preference customers. The Court of Appeals also reversed the district court's ruling as to the validity of the Secretary's banking transactions with PGandE.

Mistakenly assuming that PGandE makes a profit or benefits by purchasing power under the bank account provisions of Contract 2948A, the Ninth Circuit held that banking power with PGandE would contravene the preference clause if Santa Clara were ready, willing, and able to purchase banked power, unless banking was necessary to maximize the efficiency of the CVP for irrigation purposes. The exception to the Court of Appeals' ruling was thought to be required by the last sentence of 43 U.S.C. § 485h(e) which prohibits power sales that "impair the efficiency of the project for irrigation purposes." With respect to PGandE's counterclaim, the Ninth Circuit ruled that banking transactions would be void if unlawful and "suggested" a retroactive restructuring of the transactions between the government, PGandE, and Santa Clara. With this unique combination of rulings and "suggestions" the case was ordered remanded to the district court for further proceedings.

REASONS FOR GRANTING THE WRIT

I. The Court of Appeals' interpretation of the preference clause is contrary to a reasonable administrative construction, and thus presents important questions of federal

law not settled by the Supreme Court which affect the distribution of federal power to millions of people.

II. The Court of Appeals' ruling concerning the retroactive effects of a decision in this case conflicts with applicable decisions of the Supreme Court and threatens serious financial impact to an innocent third party.

III. Petitioner seeks review of issues fundamental to the further conduct of this lawsuit, hence a writ of certiorari should issue.

I.

The Court of Appeals' Interpretation of the Preference Clause Is Contrary to a Reasonable Administrative Construction, and Thus Presents Important Questions Not Settled by the Supreme Court Which Affect the Distribution of Federal Power to Millions of People.

This Court has ruled that a reasonable interpretation given a statute by the government official charged with its administration should not be rejected by a federal court for some other "reasonable" construction which the court deems preferable. *Train v. Natural Resources Def. Council*, 421 U.S. 60, 87 (1975); *Griggs v. Duke Power Co.*, 401 U.S. 424, 433-34 (1971); *United States v. City of Chicago*, 400 U.S. 8, 10 (1970); *Power Reactor Co. v. Electricians*, 367 U.S. 396, 408 (1961); *Bowles v. Seminole Rock Co.*, 325 U.S. 410, 417-18 (1945); *McLaren v. Fleischer*, 256 U.S. 477, 480-81 (1921). This is especially so where the statute covers a complex matter, where no one interpretation of the statute exists which can be said to be "correct," and where others have relied on the government official's interpretation. *Train v. Natural Resources Def. Council*, *supra*, 421 U.S. at 87; see also *McLaren v. Fleischer*, *supra*, 256 U.S. at 481. In such circumstances this Court will uphold a "reasonable" interpretation of a statute by the agency assigned to administer it and prohibit a Court of Appeals from substituting its interpretation for that of the agency. *Train v. Natural Resources Def. Council*, *supra*, 421 U.S. at 87.

The Secretary's interpretation is a reasonable interpretation demonstrably consistent with the Congressional purpose and scheme which the Court of Appeals should have left undisturbed.

The district court held that sales of power to PGandE do not violate the preference clause since it was necessary to make provision in the Secretary's marketing scheme for some sort of power banking arrangement and the arrangement involved conditional as opposed to unconditional "sales" of power to PGandE. 418 F.Supp. at 1251; Appendix C at 58-59. Furthermore, the Court of Appeals itself recognized that the "goal of the banking arrangement is consonant with the preference clause, inasmuch as all CVP power is ultimately committed to meet the needs of public entities." 572 F.2d at 671; Appendix A at 18.

The Secretary's application of the preference clause in this case was reasonable in part because he was not choosing between two equal offers from PGandE and Santa Clara. The sale to PGandE was a *conditional* sale. That condition, that PGandE agree to act as a bank for the Secretary, was a condition Santa Clara could not and would not meet. It has no generating facilities and no source of power to enable it to resell purchased power back to CVP. PGandE assumed an obligation that Santa Clara could not meet. Only if Santa Clara had offered the same terms and the Secretary had nonetheless sold the power to PGandE would the requirement of "preference" have been violated.

Under the circumstances the decision to sell to PGandE was not only reasonable, it was consistent with the intent of Congress in passing the preference clause. A basic concept behind the preference clause was to preclude private profit from the purchase of federal hydroelectric power where dis-

tribution of the benefits of such power directly to the public was possible. As explained during the debate on the adoption of this specific clause in the Reclamation Act: "the provisions of this amendment are merely prudent provisions in order to prevent some intermediary corporation from taking advantage of this publicly developed power and charging an additional amount to the ultimate consumer. . . ." 84 Cong. Rec. 10224 (July 27, 1939). Sales of federal power to PGandE for banking purposes are consistent with this rationale. The power conditionally sold to PGandE ultimately goes to preference customers without any profit to PGandE.* Thus, the Secretary's interpretation did not contradict the intent of the Congress.

The legislative history of the Reclamation Act of 1939 also indicates that Congress intended to bestow on the Secretary the discretion to sell power to a non-preference entity which offered more favorable terms than a preference entity. When the bill containing the preference clause was reported out of the Conference Committee to the House (which had previously stricken the preference clause), Representative Leavy of Washington told the House:

"It has been the policy of the Reclamation Service, made so by the act itself, the basic law, that they may give preference to municipalities and public corporations in the purchase of power. This amendment goes one step further and includes cooperatives and rural

*Both the PGandE retail rates and wholesale rates contain fuel adjustment clauses whose coverage includes energy cost savings achieved through power purchase transactions. There is thus a direct pass through to PGandE's customers of any savings obtained by PGandE through power purchase transactions. See e.g., *Fuel Cost Adjustment Clauses in Wholesale Rate Schedule*, Docket No. R-479, Order No. 517, 3 Federal Power Service 5-36, 5-38 (Nov. 13, 1974); *Fuel Cost Adjustment Tariff Provisions and Procedures*, California Public Utilities Commission Case No. 9886, Decision No. 85731 (April 27, 1976).

electrification projects. The gentleman from South Dakota [Mr. Case] . . . is under a misapprehension when he says that this law will require that such preference be given irrespective of the bid. That is not the fact. *If a private corporation makes a better bid, then, under this law, it will become the duty of the Commissioner of Reclamation to consider that fact, but when the two make bids that are equal, it becomes his duty then to give preference to the public corporation, or cooperative, whether it be a city, town, cooperative, or rural electrification project.*" 84 Cong. Record 10225 (July 27, 1939).

The conference report was thereupon agreed to by the House. 84 Cong. Record 10226 (July 27, 1939).

Further evidence of the reasonableness of the Secretary's construction of the "preference" requirement may be found in the Attorney General's construction of a similar provision in an earlier statute. The first reclamation law, the Act of April 16, 1906 (34 Stat. 116, 117; 43 U.S.C. § 522) provided, *inter alia*, that the Secretary of the Interior could lease surplus power from irrigation projects "giving preference to municipal purposes." In 1913 the Attorney General rendered an opinion interpreting this original preference proviso in which he stated:

"The duty to prefer municipal purposes in the making of leases is secondary and incidental. If, where a surplus of power became available, opportunities should occur to dispose of it for municipal uses, and the terms offered in return were at least as advantageous to the project as the terms offered in behalf of other uses, it would be the duty of the Secretary to make the lease for the municipal uses, but not so if, in his judgment, the contract would prove more profitable if made in the other way." 30 Op. Att'y. Gen. 197, 201-2 (1913).

When the Senate Committee on Irrigation and Reclamation considered the preference clause in the 1939 Act it noted its continuation of existing preference policy in reporting to the Senate:

"This proviso is considered by the committee to be in accord with the policy of Congress first incorporated into law in the Act of April 16, 1906 (34 Stat. 116, 117), and re-enacted in the Act of February 24, 1911 (36 Stat. 930). The proviso in question *does not change this long-continued policy* under which surplus power from reclamation projects has been disposed of to the *mutual satisfaction of privately and publicly owned utilities*. . . . It is therefore deemed appropriate that this proviso be included." (emphasis added) S. Rep. 758, 76th Cong., 1st Sess., reprinted 84 Cong. Record 9369 (July 18, 1939).

Thus the district court, Congress and the Attorney General all support the conclusion that the interpretation of the preference clause adopted by the Secretary was reasonable. Under the decisions of this Court it should have been allowed to stand.

II.

The Court of Appeals' Ruling Concerning the Retroactive Effects of a Decision in This Case Conflicts with Applicable Decisions of the Supreme Court.

The Court of Appeals ruled in this case that past, completed sales of CVP power to PGandE are "void if unlawful, for administrative actions taken in violation of statutory authorization or requirement are of no effect." 572 F.2d at 677; Appendix A at 33. The court went on to "suggest" a retroactive reconstruction of completed transactions between the government, PGandE, and Santa Clara. Both the ruling and the suggestion appear contrary to controlling decisions of this Court. They raise important questions con-

cerning the award of retroactive equitable relief, and should thus be reviewed.

The Court of Appeals' ruling that unlawful CVP power sales to PGandE would be void conflicts with this Court's holding in *Moser v. United States*, 341 U.S. 41 (1951), that a federal agency's action, though it exceeds statutory authority, may nonetheless be binding on the agency if the other party affected by the action has acted in "justifiable reliance" on the action. *Id.* at 46. In the case at bar, as in *Moser*, the petitioner has relied to its detriment on agency actions which subsequently have been held to exceed statutory authority. PGandE has not profited by these transactions and is an innocent bystander to the clash between the government and Santa Clara. PGandE has resold the CVP power at rates reflecting its costs to customers who have consumed the power. Those sales, to millions of individuals not parties to the suit, cannot be undone. If the sales of CVP power to PGandE are retroactively declared void, and accounts between the parties reallocated, PGandE is relegated to claims against the United States instead of against the escrow fund. PGandE has relied justifiably and to its detriment on the Secretary's decision to refuse CVP power to Santa Clara and instead to sell the power to PGandE for banking.

To support its unqualified assertion that all unauthorized administrative actions are retroactively void, the Court of Appeals cited *Federal Crop Insurance Corp. v. Merrill*, 332 U.S. 380 (1947). The *Merrill* case preceded *Moser*, however. As the Second Circuit has observed, the decision in *Merrill* was "substantially undermined" by the subsequent decision in *Moser*. *Corniel-Rodriguez v. I.N.S.*, 532 F.2d 301, 350 n. 15 (2d Cir. 1976). See K. Davis, *Administrative Law Treatise* § 17.02 (1958). The Court of Appeals' failure to

recognize the more recent applicable decisions of this Court should be reviewed.*

Not only has the Court of Appeals ruled that completed unlawful sales of CVP power are, *ipso facto*, void, the court also suggested the award of retroactive equitable rescission and reallocation of these completed transactions. This Court, however, recognizing that statutory "rules of law are hard facts on which people must rely in making decisions and in shaping their conduct," has frequently invoked a "doctrine of non-retroactivity" to prevent the retroactive application of its holdings regarding the interpretation or constitutionality of a statute. *Lemon v. Kurtzman*, 411 U.S. 192, 197, 199 (1973); *Chevron Oil Co. v. Huson*, 404 U.S. 97, 105-07 (1971).

The principles governing the application of the doctrine of non-retroactivity are set forth in detail in *Chevron Oil Co. v. Huson*, *supra*, 404 U.S. at 106 (1971). Retroactivity is not appropriate where: (1) the decision establishes a "new principle of law" either by overruling past precedent or by deciding an issue of first impression whose resolution was not predictable, see *Hanover Shoe v. United Shoe Machinery Corp.*, 392 U.S. 481, 496 (1968), *Allen v. State Board*

*In *INS v. Hibi*, 414 U.S. 5, 8 (1973) and *Montana v. Kennedy*, 366 U.S. 308, 314-15 (1961), the Court reserved the question whether, on an estoppel theory, a person's reliance on unauthorized conduct of government officials should be recognized. In the absence of guidance from this Court, the federal circuit courts and the Court of Claims have taken conflicting views of the propriety of estoppel against the U.S. government and the standard to be applied. See *Corniel-Rodriguez*, *supra* (2d Cir.); *Heirs of Denena v. Communication, Splicing and Engineering Co.*, 474 F.2d 1249 (3d Cir. 1973); *Bentex Pharmaceuticals, Inc. v. Richardson*, 463 F.2d 363 (4th Cir. 1972), *rev'd on other grounds*, 412 U.S. 645 (1973); *Santiago v. I.N.S.*, 526 F.2d 488 (9th Cir. 1975), *cert. denied*, 425 U.S. 971 (1976); *Atlantic Richfield Co. v. Hickel*, 432 F.2d 587 (10th Cir. 1970); *Ulman v. United States*, 558 F.2d 1, 201 Ct. Cl. 888 (1977).

of Elections, 393 U.S. 544, 572 (1969); (2) the purpose and effect of the new principle of law will not be advanced by its retroactive application, see *Linkletter v. Walker*, 381 U.S. 618, 629, 636-39 (1965); and (3) a retroactive application of the new principle of law would create a substantial inequitable result, for “[w]here a decision of this Court could produce substantial inequitable results if applied retroactively, there is ample basis in our cases for avoiding the ‘injustice or hardship’ by a holding of nonretroactivity.” *Cipriano v. City of Houma*, 395 U.S. 701, 706 (1969).

The application of those factors to this case mandates a decision favorable to PGandE with respect to its counter-claim, even if the Court of Appeals’ interpretation of 43 U.S.C. § 485h(e) as prohibiting the Secretary’s banking transactions is correct. In the court below, petitioner carefully explained how it had relied in good faith and to its detriment on the Secretary’s actions vis-a-vis Santa Clara. But the Court of Appeals, though it recognized that PGandE was an “innocent third party caught between the claims of Santa Clara and the position of the Secretary,” 572 F.2d at 678, simply asserted that if the Secretary could not prove that the banking of power desired by Santa Clara was within his statutory power his unauthorized actions are retroactively “void” and “of no effect”, *id.* at 677. That simplistic reasoning directly conflicts with the analysis followed by this Court when determining whether to afford retroactivity to its decisional law.

As illustrated by this Court’s decisions cited above, the basic question is no longer whether the law would approve of a banking transaction if it were a new one, but rather whether those who have relied on past transactions should be permitted to continue to rely on them given the particular circumstances of the transactions. See *Thompson v.*

Washington, 551 F.2d 1316, 1319 (D.C. Cir. 1977). By choosing to regard PGandE’s counterclaim as if PGandE’s right to the funds held in escrow are dependent on the validity of banking transactions in the abstract, the Court of Appeals has brought itself into direct conflict with the applicable line of cases from this Court cited above. Such a decision should be reviewed.

III.

Petitioner Seeks Review of Issues Fundamental to the Further Conduct of This Lawsuit; Hence, a Writ of Certiorari Should Issue.

It is necessary to confront these issues only on account of the Court of Appeals’ decision to vacate the district court’s earlier decision upholding the legality of the banking arrangement.

The practical result of the Court of Appeals’ ruling is to allow the escrow fund to continue to grow at a rate of approximately \$2,000,000 per month until the district court can try these issues. If the result on remand is adverse to petitioner, petitioner will be forced to wait for the case to progress through the Circuit Court of Appeals a second time before it can finally seek review by this Court of the points presented in this petition, unless, of course, this Court should grant this petition.

The escrow fund currently contains over \$50,000,000. If this petition is not granted, the escrow will surely more than double before petitioner will be at this level of appellate review again. Meanwhile, petitioner must continue to borrow at a higher rate of interest than the escrow returns to replace the monies held in escrow.

As the Court of Appeals observed, PGandE is “an innocent third party, caught between the conflicting claims of Santa Clara and the position of the Secretary.” 572 F.2d at

678; App. A at 35. The district court tried to mitigate the harsh effects of the dispute on PGandE by ordering a portion of the escrow disbursed to PGandE and ordering Santa Clara to pay PGandE at least a specified portion of all future PGandE bills. The Court of Appeals considered the suit of such importance as to afford it expedited treatment, notwithstanding—or even perhaps because—the district court ordered the controversy remanded to the Secretary for further proceedings. Petitioner respectfully requests this Court to afford a similar opportunity to avoid extended proceedings that may not be necessary at all.

It is not uncommon for this Court to review a case despite its interlocutory status where there is an issue involved which is “fundamental to the further conduct of the case.” *United States v. General Motors Corp.*, 323 U.S. 373, 377 (1945); see also *Gillespie v. United States Steel Corp.*, 379 U.S. 148, 153 (1964). A writ has been issued even where a Court of Appeals has remanded the case for further proceedings, see *Larson v. Domestic & Foreign Commerce Corp.*, 337 U.S. 682, 685 n. 3 (1949); *Land v. Dollar*, 330 U.S. 731, 734 n. 2 (1947). More recently, important questions concerning the proper exercise of equitable jurisdiction by a federal court were considered *sua sponte* by this Court, without prior consideration by the lower courts, in *Schlesinger v. Councilman*, 420 U.S. 738, 743 (1975). Since the only issues which remain to be considered by the district court concern the legality of the PGandE banking transactions and the award of retroactive relief, the Court of Appeals’ rulings of which we seek review can fairly be described as fundamental to the further conduct of this case. We respectfully submit that this Court should issue the writ.

IV.

CONCLUSION

A writ of certiorari should issue to review the portion of the judgment and opinion of the United States Court of Appeals for the Ninth Circuit described in this petition.

Respectfully submitted,

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Appendix A

City of Santa Clara, California,

Appellant,

v.

Cecil Andrus, Individually and as Secretary of the Interior, and R. Keith Higginson, Individually and as Commissioner of the Bureau of Reclamation, United States Department of Interior,

Appellees.

Cecil Andrus, Individually and as Secretary of the Interior, and R. Keith Higginson, Individually and as Commissioner of the Bureau of Reclamation, United States Department of Interior,

Appellants,

v.

City of Santa Clara, California,

Appellee.

Pacific Gas & Electric Company,

Appellant,

v.

City of Santa Clara, California,

Appellee.

Nos. 77-1110, 77-1270, 77-1189 and 76-3670.

United States Court of Appeals, Ninth Circuit.

Feb. 1, 1978.

As Amended on Denial of Rehearing and
Rehearing En Banc April 4, 1978.

Appeal from the United States District Court for the
Northern District of California.

Before DUNIWAY and CARTER, Circuit Judges, and BURNS,* District Judge.

DUNIWAY, Circuit Judge:

This case concerns sales by the Secretary of the Interior of low-cost hydroelectric power generated by the Central Valley Project in California. The city of Santa Clara filed this action for declaratory and injunctive relief, challenging the Secretary's decisions to withdraw power from the City and to deny it an allocation of "firm" (non-withdrawable) power. The Pacific Gas and Electric Company (PG&E) was allowed to intervene and counterclaim for certain funds being held in an escrow. All parties moved for summary judgment. The district court granted the Secretary's motion as to Santa Clara's National Environmental Policy Act (NEPA) claim, denied the other motions, and "remanded" the case to the Secretary for the promulgation of rules and procedures concerning the marketing power generated by the Central Valley Project. The court's judgment also dismissed the action without prejudice. All parties appeal. We affirm in part, reverse in part, and remand in part.

FACTS

The Central Valley Project (CVP) is a multipurpose federal reclamation project consisting of numerous dams, hydroelectric power plants, transmission lines, and irrigation canals, located in the Central Valley of California and its surrounding mountains.¹ While production of hydroelectric power is not the primary purpose of the CVP, a

*The Honorable James M. Burns, United States District Judge for the District of Oregon, sitting by designation.

1. The CVP is described in detail in *Ivanhoe Irrigation District v. McCracken*, 1958, 357 U.S. 275, 280-83, 78 S.Ct. 1174, 2 L.Ed.2d 1313.

substantial amount of electricity is generated by the project and ultimately sold to a large and varied group of users in Northern and Central California.

The Secretary of the Interior, through the Bureau of Reclamation, sells the power generated by the CVP at a price substantially lower than that charged by private utilities such as PG&E.² Consequently, CVP power does not lack for willing purchasers. Section 9(e) of the Reclamation Project Act of 1939, 43 U.S.C. § 485h(e), provides that in sales or leases of electric power or power privileges, made by the Secretary, "preference shall be given to municipalities and other public corporations or agencies" and REA cooperatives.

Santa Clara first sought an allocation of CVP power on June 1, 1960, although it was then under contract to buy power from PG&E and so could not then take power from CVP. In 1962, the Secretary informed Santa Clara and others that 250,000 kilowatts of firm power would become available to preference customers upon completion of the Trinity River Division of the CVP, and invited applications for this new power. Santa Clara renewed its request for power on February 19, 1962, acknowledging that it would be unable to receive the power until the expiration, on August 27, 1967, of its requirements contract with PG&E. The Secretary responded that while he would not commit himself to such a future allocation, Santa Clara's application would be kept on file for consideration nearer the time when the City could actually begin purchasing federal power. When the Trinity River Division of the CVP came on line in early 1963, the additional power which became

2. In 1976, the price of CVP power (\$.005 per kilowatt hour) was roughly one-fourth of that charged by PG&E (\$.019 per kilowatt hour).

available was allocated to other preference customers which were able to take it immediately.

Between 1963 and 1964, CVP's generating capacity increased further. Notice of the availability of additional power was sent to all preference entities, Santa Clara among them, asking for estimates of present load requirements and future load growth. The additional power was ultimately allocated to then existing preference customers and Santa Clara was again excluded because of its inability to take power immediately.

Concerned that all CVP power was fast becoming spoken for, Santa Clara telegraphed the Secretary in July, 1964, asserting that its contract with PG&E was not binding and requesting an immediate allocation of power, on a withdrawable basis if necessary. The Secretary replied that, while all anticipated power was committed to meet the growth needs of other preference customers, 75,000 kilowatts could be offered to the City on a withdrawable basis.

On November 30, 1965, Santa Clara finally contracted with the Secretary for the supply of 75,000 kilowatts of CVP power on a withdrawable basis. At the same time, Santa Clara entered into an agreement with PG&E which required the utility to supply the City with sufficient electricity to meet any power requirements not satisfied by the CVP allotment.

Santa Clara's original allotment of 75,000 kilowatts was revised upward several times after 1965 by contract amendment. The City's allotment peaked at 120,000 kilowatts in 1970, after which the Secretary, by unilateral contract amendment, began withdrawing power from Santa Clara to meet the needs of its older preference customers. Between 1971 and 1974, the City's allotment was cut back

from 120,000 kilowatts to 71,450 kilowatts. This amount is likely to dwindle still further if the Secretary has his way.

During the period when Santa Clara was receiving all of its power requirements from the CVP, it continued to ask the Secretary for a nonwithdrawable allocation. However, as additional power became available, the Secretary decided to hold it for preference customers already receiving nonwithdrawable allotments, rather than to offer it to customers with withdrawable allocations such as Santa Clara. On February 4, 1972, the Secretary finally informed Santa Clara by letter that he would not allocate nonwithdrawable power to the City, then or at any time.

In 1971, when the government began withdrawing power from Santa Clara, PG&E began monthly billings for that portion of the City's requirements not met by the CVP allocation and supplied by PG&E. Contending that the withdrawals were unlawful and consequently ineffective, Santa Clara insisted that its power needs were still being fully supplied by the Secretary. The City began paying the moneys demanded by PG&E into an escrow account and has done so ever since.

PROCEEDINGS IN THE TRIAL COURT

On July 25, 1975, Santa Clara filed this action against the Secretary and the Commissioner of the Bureau of Reclamation (the federal defendants), seeking declaratory and injunctive relief. In its complaint the City challenged the withdrawal of CVP power and the Secretary's refusal to supply it with a nonwithdrawable allocation. PG&E intervened as a party-defendant, counterclaiming for declaratory relief with respect to the funds held in escrow. All parties moved for summary judgment.

On July 23, 1976, the district court issued its opinion, *City of Santa Clara v. Kleppe*, N.D.Cal., 1976, 418 F.Supp. 1243, holding as follows: (1) Santa Clara's action is not barred by sovereign immunity; (2) the Secretary's contractual relationship with PG&E does not violate the reclamation laws; (3) the Secretary's decisions allocating CVP power are reviewable; (4) Congress has not approved the existing allocation scheme; (5) the Secretary violated the Administrative Procedure Act (APA) by failing to promulgate and publish rules of procedure governing the allocation of CVP power; (6) the Secretary's actions denied Santa Clara due process; and (7) the National Environmental Policy Act (NEPA) did not require the Secretary to file an environmental impact statement before withdrawing power from the City. The district court's opinion contained no ruling on defendants' claim that Santa Clara's action was untimely and barred by laches.

Although the trial court held that the Secretary's marketing decisions were reviewable, it did not pass on the lawfulness of the existing allocation scheme. Instead, it remanded the action to the Secretary with instructions to remedy the due process and APA violations. With regard to PG&E's counterclaim, the court ruled that the utility's right to be reimbursed by Santa Clara would depend upon the allocation scheme adopted by the Secretary on remand. The court therefore ordered that the disputed funds remain temporarily in escrow.³ It also dismissed the action without prejudice.

3. The court later modified this decision, ordering that one quarter of the funds in escrow be disbursed to PG&E to enable the utility to recoup the costs incurred in purchasing the power ultimately resold to Santa Clara. See *City of Santa Clara v. Kleppe*, N.D.Cal., 1976, 428 F.Supp. 315.

I.

JURISDICTION ON APPEAL

Although the dismissal of the action "in its entirety" is "without prejudice," we find that the judgment based upon it is a final judgment, appealable under 28 U.S.C. § 1291. The language "without prejudice" avoids the "on the merits" effect of Rule 41(b), F.R.Civ.P., and permits the filing of a new action by any party dissatisfied with the Secretary's action on remand. It is still true, however, that the judgment disposes of the action. Moreover, the remand is, in substance, a mandatory injunction requiring certain action by the Secretary, and so appealable under 28 U.S.C. § 1292(a)(1) assuming, but not deciding, that it is not a final judgment under § 1291.

We have jurisdiction. See *Gueory v. Hampton*, 1974, 167 U.S.App.D.C. 1, 4, 510 F.2d 1222, 1225; *Hines v. D'Artois*, 5 Cir., 1976, 531 F.2d 726, 730.

II.

LACHES AND THE STATUTE OF LIMITATIONS

The federal defendants argue that this action is barred by either the six-year statute of limitations, 28 U.S.C. §2401(a), or the doctrine of laches. These arguments are based on the assumption that Santa Clara's claim for relief arose no later than 1965 when the City entered into a contract with the Secretary for the supply of withdrawable CVP power.

Long after 1965, however, the Secretary, through the regional director of the Bureau of Reclamation, continued to assure Santa Clara that its applications for nonwithdrawable power would receive due consideration in the future. It was not until 1972 that the Secretary informed

the City by letter that all firm CVP power was committed to meet the growth needs of other preference customers. Until that date, the City could reasonably have believed that it could, in future, secure an allocation of firm power. We therefore conclude that Santa Clara's claim for relief did not arise until 1972, when the Secretary finally told the City, in unequivocal terms, that its applications for non-withdrawable power would not be considered, then or later.

III.

REVIEWABILITY OF THE SECRETARY'S DECISIONS

PG&E and the federal defendants assert that the Secretary's decisions concerning the allocation of CVP power are immune from judicial review. Specifically, they contend that the Secretary's marketing decisions are actions "committed to agency discretion by law" within the meaning of the APA, 5 U.S.C. § 701(a)(2).

Judicial reviewability of administrative action is the rule and nonreviewability a narrow exception, the existence of which must be clearly demonstrated. *Arizona Power Pooling Ass'n v. Morton*, 9 Cir., 1975, 527 F.2d 721, 727, cert. denied, 1976, 425 U.S. 911, 96 S.Ct. 1506, 47 L.Ed.2d 761. The Supreme Court has stated that review is precluded only "in those rare instances where 'statutes are drawn in such broad terms that in a given case there is no law to apply.'" *Citizens To Preserve Overton Park v. Volpe*, 1971, 401 U.S. 402, 410, 91 S.Ct. 814, 821, 28 L.Ed.2d 136. See also, *Ness Investment Corp. v. United States Department of Agriculture, Forest Service*, 9 Cir., 1975, 512 F.2d 706, 713. If, however, no law fetters the exercise of administrative discretion, the courts have no standard against which to measure the lawfulness of agency action. In such cases no issues sus-

ceptible of judicial resolution are presented and the courts are accordingly without jurisdiction. *Arizona Power Authority v. Morton*, 9 Cir., 1977, 549 F.2d 1231, 1239, cert. denied, 1977, _____ U.S. _____, 98 S.Ct. 124, 54 L.Ed.2d 97.

In considering whether administrative action is "committed to agency discretion by law" within the meaning of the APA, the test "is not whether a statute viewed in the abstract lacks law to be applied, but rather, whether 'in a given case' there is no law to be applied." *Strickland v. Morton*, 9 Cir., 1975, 519 F.2d 467, 470 (emphasis in original). Thus the existence of some law generally applicable to the subject matter in question will not necessarily remove administrative action from the "committed to agency discretion" rubric. There is "law to apply," only if a specific statute limits the agency's discretion to act in the manner which is challenged.

A. *The Refusal to Contract with Santa Clara for Firm Power.*

Santa Clara says that two statutes provide "law to apply" in evaluating the Secretary's decisions concerning the sale of power generated by the CVP to Santa Clara. The first is the Central Valley Project Authorization Act, 50 Stat. 850, which incorporates generally the provisions of the reclamation laws. Section 9(e) of the Reclamation Project Act of 1939, 43 U.S.C. § 485h(e), defines a class of customers which are to receive a preference in the sale of power generated by federal reclamation projects. The class of preference customers includes "municipalities and other public corporations or agencies."

Our recent decision in the case of *Arizona Power Authority v. Morton*, supra, forecloses Santa Clara's argument that the Secretary, by providing other public entities with

nonwithdrawable power allocations while denying such a "firm" allocation to Santa Clara, thereby violated the terms of the preference clause. In that case a group of preference customers for power in Arizona challenged the Secretary's decision to allocate most of the power produced by Colorado River Storage Project (CRSP) generating facilities to preference customers located in the "upper basin" states of Wyoming, Colorado, Utah and New Mexico. We held that the Secretary was obliged to market power generated by CRSP facilities to preference customers in accord with the dictates of the Reclamation Project Act of 1939, 43 U.S.C. § 485h(c), but concluded that the preference clause permitted the Secretary to discriminate against some preference entities in favor of others. "[I]t would appear in light of his broad discretion that the Secretary may adopt whatever geographic preference he desires and that we have no jurisdiction to review his action." 549 F.2d at 1241.

The preference clause requires only that public entities be given a preference over private entities in the marketing of power generated by federal reclamation projects. *Arizona Power Pooling Ass'n v. Morton*, *supra*, 527 F.2d at 726-28. It does not require that all preference customers be treated equally or that all potential preference customers receive an allotment. *Arizona Power Authority v. Morton*, *supra*, 549 F.2d at 1241, 1252. Where, as here, one preference entity challenges the Secretary's decision to discriminate against it in favor of other preference entities, the reclamation laws provide no law to apply to the dispute. If he so chooses, the Secretary can market *all* available CVP power to a single public entity without running afoul of the preference clause.

In *Arizona v. California*, 1963, 373 U.S. 546, 83 S.Ct. 1468, 10 L.Ed.2d 542, the Court considered the scope of the Secre-

tary's authority to allocate the waters of the Colorado River pursuant to the Boulder Canyon Project Act. The Court stated:

The general authority to make contracts normally includes the power to choose with whom and upon what terms the contracts will be made. When Congress in an Act grants authority to contract, that authority is no less than the general authority, unless Congress has placed some limit on it. . . . [W]e are persuaded that had Congress intended . . . to fetter the Secretary's discretion, it would have done so in clear and unequivocal terms . . . 373 U.S. at 580, 83 S.Ct. at 1487.

Nothing in the legislative history of the Reclamation Project Act of 1939 suggests that Congress intended to limit the Secretary's discretion to interpret the preference clause in making decisions as to whether or how or on what terms he will sell power to particular preference customers as compared to other preference customers.

Santa Clara also relies on Section 5 of the Flood Control Act of 1944, 16 U.S.C. § 825s, as providing an alternative standard against which the Secretary's marketing decisions can be measured. In pertinent part, section 5 provides that power is to be disposed of "in such manner as to encourage the most widespread use thereof consistent with sound business principles." By its terms this directive governs only the sale of power generated by flood control projects operated by the Department of the Army. The standard's applicability to the sale of power generated by the CVP, which is operated by the Bureau of Reclamation, is therefore questionable. Santa Clara maintains that the federal defendants themselves, as a matter of departmental policy, have long regarded the provisions of the Flood Control Act

as applicable to the marketing of CVP power. We find it unnecessary to decide whether the Flood Control Act does apply to the sale of power generated by the CVP because the standard that it contains, even if applicable, is too vague and general to provide law to apply.

The Flood Control Act's directive to market power in such a way as to "encourage the most widespread use thereof" could be interpreted in many different ways, such as to require that power be sold to as many different preference entities as possible, thereby fostering the most widespread geographic use of the power, or to mandate sale of the power to those preference entities whose customers present the most diversified mix of agricultural, industrial or residential users, or to require sale of federal power to those preference entities which serve the largest number of ultimate consumers.

Clearly, the "most widespread use" standard is susceptible of widely divergent interpretations. As we said of another law in *Strickland v. Morton, supra*, "[t]he provisions of this statute breathe discretion at every pore." 519 F.2d at 469. The statute permits the exercise of the widest administrative discretion by the Secretary. It does not supply "law to apply." See *Arizona Power Authority v. Morton, supra*, 549 F.2d at 1252.

In *Panama Canal Co. v. Grace Lines, Inc.*, 1958, 356 U.S. 309, 78 S.Ct. 752, 2 L.Ed.2d 788, the Court was asked to review the federally chartered Canal Company's decision to require ships passing through the Canal to pay particular tolls. While the applicable statute set out in some detail the criteria to be considered by the Company in prescribing tolls, the Court concluded that the Company's discretion in interpreting the statute was so broad as to bring it within 5 U.S.C. § 701(a)(2) (formerly § 1009) and thus to preclude judicial reviews:

Where the matter is peradventure clear, where the agency is clearly derelict in failing to act, where the inaction or action turns on a mistake of law, then judicial relief is often available . . . But where the duty to act turns on matters of doubtful or highly debatable inference from loose statutory terms, the very construction of the statute is a distinct and profound exercise of discretion. 356 U.S. at 318, 78 S.Ct. at 757.

We conclude that the Secretary's refusal to allocate non-withdrawable power to Santa Clara is unreviewable because there is "no law to apply." The preference clause contained in the Reclamation Project Act of 1939 does not prevent the Secretary from discriminating against some preference entities to the benefit of others. The Flood Control Act of 1944, while arguably applicable to the sale of power generated by the CVP, is so imprecise that its interpretation requires a "profound exercise of discretion" of the sort described in the *Panama Canal* case. The trial court's finding that the Secretary's marketing decisions as to the terms on which he will market power to preference customers are reviewable is in error. Decisions concerning the proper allocation of CVP power among preference entities are "action committed to agency discretion by law" within the meaning of the APA and as such are unreviewable.⁴

4. Although the argument was not raised in the trial court, Santa Clara now argues on appeal that inclusion of the Folsom Dam in the CVP network mandates application of a power marketing standard similar to that contained in the Flood Control Act. Section 4 of the American River Act of 1949, 63 Stat. 582, directs the Secretary of the Interior to operate Folsom Dam "in such manner as will effectuate the fullest and most economic utilization of the land and water resources of the Central Valley project of California for the widest public benefit." This marketing standard is as imprecise as that contained in the Flood Control Act and we reject the argument that it provides law to apply to the instant dispute.

B. The Sale of Power to PG&E.

Santa Clara challenges the Secretary's decision to sell massive quantities of CVP power to PG&E, a privately owned utility. While we have concluded that the preference clause contained in section 9(e) of the Reclamation Project Act of 1939 does not provide law to apply to the Secretary's decision to allocate CVP power among preference customers in one fashion rather than another, the statute clearly does provide a standard against which the propriety of sales to non-preference entities such as PG&E can be measured. *Arizona Power Pooling Ass'n v. Morton, supra.*⁵

PG&E and the federal defendants do not argue otherwise. They concede the applicability of the preference clause but contend that the present marketing scheme does not violate the clause because power is not sold outright to PG&E but is rather "banked" temporarily with the utility pursuant to government contract. The contract provides that all CVP power which is sold to PG&E is subject to the

5. As we said in *East Oakland-Fruitvale Planning Council v. Rumsfeld*, 9 Cir., 1972, 471 F.2d 524:

Agency action is made unreviewable by 5 U.S.C. § 701(a)(2) only "to the extent" that it is committed to agency discretion. . . . An "all or nothing" approach to reviewability would, in specific cases, either be unfair to persons aggrieved by agency action, or impose an unwise burden upon the agency or the courts. Accordingly, separable issues appropriate for judicial determination are to be reviewed, though other aspects of the agency action may be committed to the agency's expertise and discretion.

If a statute or regulation establishes a rule governing the conduct of the agency with respect to an aspect of the agency action, a court may determine whether the agency has complied with that rule, although the court still may not review other aspects of the agency action as to which there are no reasonably fixed rules to apply. The presence of a judicially enforceable rule both justifies judicial review, and limits its scope.

471 F.2d at 533-34.

Secretary's right to repurchase at a later date, at the original price plus a "handling charge," plus the difference in cost to PG&E of producing the power sold to the Secretary over PG&E's similar cost at the time it bought.

The Secretary maintains that this arrangement is designed to enable him to supply the growth needs of selected preference customers until 1980. By "banking" power with PG&E during periods when the total output of the CVP exceeds the demands of these selected customers, the Secretary creates an "account" which he can draw on to satisfy their requirements when demand outstrips supply. It is more accurate to state that the contract requires that an account be kept of all power sold to PG&E and that the Secretary may thereafter purchase power, up to that amount, from PG&E. PG&E sells the power that it buys from the Secretary to its customers at its price. To describe this arrangement as "banking" is to use an inaccurate and somewhat misleading figure of speech.

The relationship between the Secretary and PG&E and the Secretary's preference customers such as Santa Clara is further complicated by two facts. The first is that CVP power is fed into PG&E's distribution system and is transmitted by PG&E over its lines to preference customers and to PG&E's own customers. At the same time, power produced by PG&E is also fed into the same distribution system. Once that happens, it is physically impossible, or at least not practicable, to identify any particular unit of power as CVP power or as PG&E power. Thus, in theory, PG&E receives CVP power from CVP and transmits it (or "wheels" it) to Santa Clara over PG&E's lines. In fact, the transmitted power cannot be and is not so identified. The problem is solved by bookkeeping. Track is kept of the amount of CVP power that enters the PG&E system. The

Secretary tells PG&E how much of it is for each preference customer. PG&E supplies that amount of power to each. The Secretary then bills each preference customer for that power at the Secretary's price. CVP power received by PG&E and not treated as transmitted to preference customers of the Secretary is treated as sold by the Secretary to PG&E and PG&E pays the Secretary for it. This is the power that is said to be "banked" under the PG&E contract with the Secretary.

The second fact is that there is now being fed into the PG&E system more government produced power than is being produced by CVP power plants. This is because of the creation of the Northwest intertie, whereby substantial amounts of power are being transmitted to the CVP area from the Northwest. The PG&E contract with the Secretary relates to that power as well as to CVP power. It is suggested that the Northwest power never would have been available to preference customers in the CVP area without the cooperation of PG&E embodied in the contract with the Secretary. We assume that this is true, but that fact cannot diminish the Secretary's legal obligation to sell to preference customers. Neither the Secretary nor PG&E argues that the full "Project Dependable Capacity" as defined in the contract, paragraphs 9(a) and (i) and 11, is not subject to the preference clause. Their only argument is that the "banking" provisions of the contract satisfy the requirements of the preference clause.

The trial court concluded that the "banking" of CVP power with PG&E was not violative of the preference clause. We conclude that the present marketing scheme involves the sale of power to PG&E and that the terms of the preference provisions are not satisfied by the government's repurchase right.

The preference clause states a clear legislative intent and requirement that the Secretary shall favor public entities in the sale of power generated by federal reclamation projects. As we noted recently in *Arizona Power Pooling Ass'n v. Morton*, *supra*, "[t]he text of the preference provision is couched in mandatory terms, stating that 'preference shall be given' (emphasis added) to certain public entities in governmental sales or leases of electric power or power privileges." 527 F.2d at 727. The Secretary is thus given a very specific directive to market federal power to preference customers if any are ready and willing to purchase it. It is only if the available supply exceeds the demands of interested preference customers that the Secretary may offer federal power to private entities. 41 Op.A.G. 236, 1955, *Disposition of Surplus Power Generated At Clark Hill Reservoir Project*.⁸

In this case the Secretary has marketed CVP power to PG&E, a non-preference entity, during times when a preference customer was having its allotment gradually reduced,

6. In advising the Secretary as to the propriety of his proposed scheme for allocating power generated by the Clark Hill Reservoir Project, Attorney General Brownell was called upon to interpret the Flood Control Act of 1944, which contains a preference clause almost identical to that contained in the Reclamation Project Act of 1939. The Attorney General construed the preference provision to require that "when the Secretary of the Interior has before him two competing offers to purchase power, one by a preference customer, and the former does not have at the time the physical means to take and distribute the power, he must contract with the preference customer on condition that such customer will, within a reasonable time to be fixed by the Secretary, obtain the means for taking and delivering the power." *Disposition of Surplus Power Generated At Clark Hill Reservoir Project*, *supra*, 41 Op.A.G. at 243-44. Thus, in Attorney General Brownell's estimation, even the present inability of a preference customer to take federal power is insufficient to justify a decision by the Secretary to permanently commit the power to a non-preference customer. Here, of course, Santa Clara is able to take its full power requirements from the CVP and has done so in the past.

over its objection. It is claimed that PG&E's allotment was more than adequate to satisfy Santa Clara's full requirements.⁷ Nevertheless, the Secretary has, since 1971, progressively reduced Santa Clara's withdrawable allocation.

In defense of the Secretary's arrangement with PG&E, he maintains that he is storing up power with the utility for the future benefit of selected preference customers. In the meantime, however, to the extent that Santa Clara could have purchased the power, a private utility is profiting from the low cost of federal power at the expense of a preference entity. This result, we think, does violence to the plain meaning and intent of the preference provision.

While the stated goal of the banking arrangement is consonant with the preference clause, inasmuch as all CVP power is ultimately committed to meet the needs of public entities, the propriety of the goal cannot save the scheme if its interim effects are violative of the statute. That may be the case here. Congress intended public entities, whenever possible, to benefit from the sale of low cost federal

7. The following is a comparison of the CVP power sold to Santa Clara as compared to the amount sold to PG&E [in kilowatts]:

	SANTA CLARA	PG&E
1965	71,490	282,183
1966	78,863	198,063
1967	89,367	81,377
1968	92,031	79,713
1969	106,128	55,944
1970	116,471	26,406
1971	112,696	278,724
1972	89,200	382,000
1973	86,550	382,000
1974	73,300	387,786
1975	73,800	337,000

The sales to PG&E are in such high quantity that this nonpreference customer has become the Bureau's largest customer.

(Opening Brief of Santa Clara, pp. 44-45). These figures are not disputed by the Secretary or by PG&E.

power. An arrangement which enables a nonpreference entity to reap a benefit which Congress sought to bestow upon public entities, even temporarily, flies in the face of that intent.

It is no answer for the Secretary to say that he is merely "banking" power with the utility, rather than selling it outright. A sale is no less a sale because the buyer is obliged, upon the seller's demand, to resell an equivalent amount to the seller. The plain fact is that the power which is conveyed to PG&E does not sit idly in storage, awaiting withdrawal by the government. Instead it is resold by PG&E to its own customers at a substantial mark up. This is a sale, regardless of the verbiage employed to characterize the arrangement.

In *United States v. City and County of San Francisco*, 1940, 310 U.S. 16, 60 S.Ct. 749, 84 L.Ed. 1050 the Court considered a challenge to the sale by San Francisco to PG&E of power generated from the Hetch Hetchy project in Yosemite National Park Section 6 of the Raker Act, 38 Stat. 242, which governed disposition of the power by San Francisco, prohibited the City "from ever selling or letting to any corporation or individual, except a municipality or municipal water district or irrigation district, the right to sell or sublet the water or the electric energy sold or given to it" by the United States. San Francisco argued that although it conveyed power to PG&E, section 6 was not violated because the power was "consigned" and not sold, to the utility, which acted as "agent" for the City in transmitting and selling the power. The court concluded that San Francisco's contractual relationship with PG&E contravened the legislative intent behind the Raker Act regardless of the words used to describe it:

Terminology of consignment of power, rather than of transfer by sale, and verbal description of the power Company as the City's agent or consignee, are not sufficient to take the actions of the parties under the contract out of § 6. Congress, in effect trustee of public lands for all the people, has by this Act sought to protect and control the disposition of a section of the public domain. The City has in fact followed a course of conduct which Congress, by § 6, has forbidden. Mere words and ingenuity of contractual expression, whatever their effect between the parties, cannot by description make permissible a course of conduct forbidden by law. When we look behind the word description of the arrangement between the City and the power Company to what was actually done, we see that the City has—contrary to the terms of § 6—abdicated its control over the sale and ultimate distribution of Hetch-Hetchy power. 310 U.S. at 28, 60 S.Ct. at 756.

While the preference clause directs the Secretary to extend a preference to public entities in the sale of power generated by federal reclamation projects, that mandate is qualified slightly by the following proviso:

No contract relating to . . . electric power or power privileges shall be made unless, in the judgment of the Secretary, it will not impair the efficiency of the project for irrigation purposes. 43 U.S.C. § 485h(c).

Thus the Secretary is prohibited from selling CVP power to a preference entity if, in his estimation, to do so would have the effect of cutting back on the power necessary to operate the project's pumping facilities.

Before the trial court, the Secretary sought to justify the sale of power to PG&E on the sole ground that the gov-

ernment's right to repurchase power "banked" with the utility satisfied the preference clause. The issue of the CVP's efficiency for irrigation purposes, and the likely impact of the present marketing scheme, or of Santa Clara's attack upon it, on that efficiency, were not addressed by any of the parties in their moving papers upon which the trial court rendered its decision.

In light of the paucity of information adduced on this key issue, we are loathe to hold the sale of power to PG&E at Santa Clara's expense flatly invalid. It is conceivable that the Secretary's decision to favor PG&E over Santa Clara in the marketing of CVP power could be justified as a measure designed to maximize the project's efficiency for its primary purpose, which is irrigation.

PG&E and the Secretary argue that during at least part of the period beginning in 1972, when the Secretary was gradually reducing Santa Clara's allotment, CVP did not have the energy necessary to supply Santa Clara, and Santa Clara was not willing or able to take such intermittent power as was being sold to PG&E. It is also claimed that some of the power sold by the Secretary to PG&E may not have been subject to the preference clause. The trial court did not decide these questions. They can be considered on remand, as can the issue of CVP's efficiency for irrigation purposes if the Secretary chooses to raise it.

C. Congressional Approval.

The federal defendants argue that Congress ratified the existing power allocation scheme when it appropriated moneys for the construction of an extra high voltage intertie between the Pacific Northwest and Pacific Southwest. To show ratification, the government must sustain the heavy burden of demonstrating congressional knowledge

of the precise course of action alleged to have been acquiesced in. *United States v. Beebe*, 1901, 180 U.S. 343, 354, 21 S.Ct. 371, 45 L.Ed. 563; *United States v. Georgia-Pacific Co.*, 9 Cir., 1970, 421 F.2d 92, 102 n. 28.

We fully agree with the district court's determination that the record in this case "does not support a finding of congressional knowledge of the exclusion of post-1964 preference customers from receiving nonwithdrawable CVP power sufficient to equate passage of the appropriations bills with ratification of the exclusion." *City of Santa Clara v. Kleppe*, *supra*, 418 F.Supp. at 1256. Similar efforts to infer congressional approval of specific agency actions from the enactment of general appropriations measures proved unsuccessful in *Arizona Power Pooling Ass'n v. Morton*, *supra*, 527 F.2d at 725-26. See also, *Associated Electric Cooperative Inc. v. Morton*, 1974, 165 U.S.App.D.C. 344, 351-52, 507 F.2d 1167, 1174-75, *cert. denied*, 1975, 423 U.S. 830, 96 S.Ct. 49, 46 L.Ed.2d 47. We think that those decisions are controlling here.

IV.

RULE MAKING AND THE ADMINISTRATIVE PROCEDURE ACT

Santa Clara urges, and the district court found, that the procedures followed by the Secretary in arriving at his marketing decisions failed to comport with certain provisions contained in the APA. While we have concluded that the Secretary's scheme for allocating CVP power among preference customers is substantially unreviewable, the adequacy of the procedures utilized in formulating the marketing scheme is a separable issue. *East Oakland-Fruitvale Planning Council v. Rumsfeld*, 9 Cir., 1972, 471 F.2d 524, 533-35. See also, *Moore-McCormack Lines, Inc. v.*

United States, Ct.Cl., 1969, 413 F.2d 568, 581; Saferstein, "Nonreviewability: A Functional Analysis of 'Committed to Agency Discretion,'" 82 Harv.L.Rev. 367, 372 (1968).

The rule making section of the APA, 5 U.S.C. § 553, requires federal agencies to notify the public, conduct hearings, and consider the input of interested parties, before promulgating new substantive rules. However, that section expressly exempts from the rule making requirements all matters "relating to . . . public property." 5 U.S.C. § 553(a) (2). Power generated by federal reclamation projects is certainly public property; hence the Secretary, in deciding how to allocate CVP output, is not bound to follow the procedures mandated by 5 U.S.C. § 553. *Associated Electric Cooperative, Inc. v. Morton*, *supra*, 165 U.S. App.D.C. at 354-55, 507 F.2d at 1177-78. *Northern California Power Agency v. Morton*, D.D.C., 1975, 396 F.Supp. 1187, 1191 n. 6, *aff'd* 1976, 176 U.S.App.D.C. 241, 539 F.2d 243.

Santa Clara nonetheless argues, and the trial court held, that 5 U.S.C. § 552, the "Public Information" section of the APA, requires the Secretary to promulgate rules to be followed in arriving at power marketing decisions. In pertinent part, 5 U.S.C. § 552(a)(1) provides that each agency shall publish in the Federal Register:

- (B) statements of the general course and method by which its functions are channeled and determined . . .
- (C) rules of procedure . . .
- (D) substantive rules of general applicability adopted as authorized by law, and statements of general policy or interpretation of general applicability formulated and adopted by the agency . . .

As amended in 1966, section 552 also provides that "[e]xcept to the extent that a person has actual and timely notice

of the terms thereof, a person may not in any manner be required to resort to, or be adversely affected by, a matter required to be published in the Federal Register and not so published."

On its face, section 552 requires only the publication of existing rules and not the promulgation of new ones. The section requires agencies to make "available" procedures by which their functions "are channeled and determined," and the substantive rules and general policies which have been "adopted" or "formulated and adopted." This interpretation is bolstered by the existence of an entirely separate section, § 553, headed "rule making," and by the legislative history of the APA itself. The legislative history suggests that in enacting § 552, Congress was concerned exclusively with the dearth of published descriptions concerning agency structure, function, and procedure.

In 1941, the Senate Judiciary Committee held extensive hearings on the soon to be enacted APA. During those hearings, spokesmen for numerous agencies repeatedly voiced that fear that the publication provisions contained in the proposed law might be construed to require them to develop new rules and regulations. Dean Acheson, Chairman of the Committee appointed by President Roosevelt to make recommendations for improving administrative procedure, addressed these fears in a formal statement to the Senate Judiciary Committee. Of the predecessor provision of section 552, Acheson said:

... [I]n order that persons may know what the policies and interpretations of an agency are, we suggest in section 201(2) that all such policies and interpretations, and the procedures whether formal or informal, and the forms of an agency be made available.

There has been some misunderstanding about the scope of this subsection (2). It is not intended to require agencies to make up policies and interpretations of law, or procedures, out of whole cloth merely for the sake of making them. Rather this section is intended to require agencies to make available to the public those policies and procedures which have become crystallized, which through experience have been formulated and adopted. Hearings before a subcommittee of the Senate Judiciary Committee on S. 674, S. 675 and S. 918, 77th Cong., 1st Sess. 829 (1941)

The House and Senate Reports on the APA likewise suggest that Congress, in enacting § 552, sought only to insure that those administrative rules which had "crystallized" would be made available to the public:

The public information requirements of section 3 are in many ways the most important, far-reaching, and useful provisions of the bill. For the information and protection of the public wherever located, these provisions require agencies to take the mystery out of administrative procedure by stating it. The section has been drawn upon the theory that administrative operations and procedures are public property which the general public, rather than a few specialists or lobbyists, is entitled to know or to have the ready means of knowing with definiteness and assurance.

Senate Committee on the Judiciary, Administrative Procedure Act, S.Rep.No. 752, 79th Cong., 1st Sess. 198 (1945). See also House Committee on the Judiciary, Administrative Procedure Act, H.Rep. No. 1980, 79th Cong., 2d Sess. 255 (1946).

Santa Clara cites *Morton v. Ruiz*, 1974, 415 U.S. 199, 94 S.Ct. 1055, 39 L.Ed.2d 270, for the proposition that § 552 requires not simply the publication of established rules but

also the formulation of new ones. In that case the Bureau of Indian Affairs (BIA) refused to provide general assistance benefits to an Indian couple who had left their reservation to settle in a nearby Indian community. In summarily denying the couple's application for benefits, the BIA cited a provision contained in its Indian Affairs Manual, an internal operations brochure, which restricted benefits to Indians remaining on the reservation. The Court held that this restriction was based on an impermissible construction of the act which established the assistance program and on this basis the Court held it invalid.

The Court went on to announce in *dicta* that even if the restriction were consonant with congressional intent, section 552 required publication of the eligibility requirements for receiving benefits. The policy of restricting benefits to on-reservation Indians involved in *Morton v. Ruiz* had clearly "crystallized." Indeed, it was enshrined in an internal operations manual. Because the rule had already been formulated by the BIA and was routinely applied by the agency, section 552 required publication.

Here, in contrast, it is not alleged that the Secretary has formulated any rules, substantive or procedural, for the allocation of CVP power. That being so, there is apparently nothing to publish. While some may deplore this state of affairs, the rule making section of the APA, § 553, manifests a clear legislative intent to permit *ad hoc* decision making in the distribution of public property. Senate Committee on the Judiciary, Administrative Procedure Act, S.Rep.No. 752, 79th Cong., 1st Sess. 199 (1945).⁸ *Duke City*

8. With regard to the public property exemption to the rule making requirement, the Senate Report on the APA states:

The exception of proprietary matters is included because the principal consideration in most such cases relate to mechanics and interpretations or policy, and it is deemed wise to encour-

Lumber Co. v. Butz, D.D.C., 1974, 382 F.Supp. 362, 373, aff'd, 176 U.S.App.D.C. 218, 539 F.2d 220, cert. denied, 1977, 429 U.S. 1039, 97 S.Ct. 737, 50 L.Ed.2d 751. We cannot read a rule making requirement into § 552, or interpret the section in such a way as to render meaningless the public property exemption contained in § 553.

In *Gonzalez v. Freeman*, 1964, 118 U.S.App.D.C. 180, 334 F.2d 570, and *W. G. Cosby Transfer & Storage Corp. v. Froehlke*, 4 Cir., 1973, 480 F.2d 498, 5 U.S.C. § 552 was interpreted to require agencies to promulgate rules and procedures which had not theretofore been "crystallized." The actual holding in each case was that the agency involved could not terminate a business relationship existing between the agency and the plaintiff without affording a due process type hearing. In each case there is language to the effect that § 552 required the agency to formulate and adopt rules describing the grounds upon which the agency would act and the procedures that it would follow. But in neither case did the court do what the trial court did here, order the agency to formulate and adopt such rules. To the extent that these cases can be said to stand for the proposition that § 552 requires an agency to formulate and adopt rules, we decline to follow them. The trial court's decision in this case, insofar as it requires the Secretary to formulate and adopt rules governing his decisions in marketing power to preference customers, is in error.

age and facilitate the issuance of rules by dispensing with all mandatory procedural requirements. None of these exceptions, however, is to be taken as encouraging agencies not to adopt voluntary public rule making procedures where useful to the agency or beneficial to the public. The exceptions merely confer a complete discretion upon agencies to decide what, if any, public rule making procedures they will adopt in a given situation. . . .

S.Rep.No. 752, 79th Cong., 1st Sess., at 199 (1945).

V.

DUE PROCESS

Santa Clara argues that it has a sufficient property interest in CVP power to entitle it to due process protection. The trial court agreed, and further held that the federal defendants had failed to accord Santa Clara that process which was due. The court therefore ordered the federal defendants, *inter alia*, to (1) re-evaluate the present power allocation scheme with an eye toward possible revision; (2) announce the standards used in devising the allocation scheme then proposed; (3) afford all interested parties an opportunity to comment on the proposed marketing plan; (4) hold a public hearing on the proposed marketing plan; and (5) announce the specific findings relied on in devising the plan ultimately adopted. *City of Santa Clara v. Kleppe*, *supra*, 418 F.Supp. at 1261-62.

PG&E argues that Santa Clara is not a "person" entitled to due process protection under the Fifth Amendment. PG&E relies primarily on *South Carolina v. Katzenbach*, 1966, 383 U.S. 301, 323-24, 86 S.Ct. 803, 15 L.Ed.2d 769, where the Court held that a state is not a "person" entitled to due process protection, reasoning that a municipality cannot be a "person" if its progenitor, the state, is not. We are by no means convinced that PG&E's argument is correct. See *Township of River Vale v. Town of Orange-town*, 2 Cir., 1968, 403 F.2d 684, 686, holding that "a municipal corporation like any other corporation is a 'person' within the meaning of the [Constitution]." See also, *Aguayo v. Richardson*, 2 Cir., 1973, 473 F.2d 1090, 1100-01, cert. denied, 1974, 414 U.S. 1146, 94 S.Ct. 900, 39 L.Ed.2d 101. We need not decide the question. For the purpose of this case, we assume that Santa Clara is a "person."

PG&E and the federal defendants assert that Santa Clara has no protectible "property" interest in CVP power. The trial court based its holding that Santa Clara has such an interest on the City's status as a preference customer under the reclamation laws. In so holding, the trial court was speaking of an interest of Santa Clara vis-a-vis other actual and potential preference customers. The court had already held that sales of CVP power to PG&E under the contract between it and the Secretary did not violate the preference clause. Thus the court had no occasion to decide whether Santa Clara had a "property" interest vis-a-vis PG&E.

We first consider "property" interest as against other preference entities. While the test for identifying a property interest sufficient to merit invocation of the Due Process clause "is not clearly defined," *Pence v. Kleppe*, 9 Cir., 1976, 529 F.2d 135, 141, the Supreme Court has stated that:

To have a property interest in a benefit, a person clearly must have more than an abstract need or desire for it. He must have more than a unilateral expectation of it. He must, instead, have a legitimate claim of entitlement to it. *Board of Regents v. Roth*, 1972, 408 U.S. 564, 577, 92 S.Ct. 2701, 2709, 33 L.Ed.2d 548.

See also, *Geneva Towers Tenants Organization v. Federated Mortgage Investors*, 9 Cir., 1974, 504 F.2d 483 at 489.

The exact perimeters of the "entitlement" concept are as yet unclear. See Note, "Statutory Entitlement and the Concept of Property," 86 Yale L.J. No. 4, p. 695 (1977). After reviewing the Supreme Court's recent decisions concerning statutorily created property interests, the author of the note concluded that "a statute will create an entitlement to a governmental benefit either if the statute sets

out conditions under which the benefit *must* be granted or if the statute sets out the *only* conditions under which the benefit may be denied." 86 Yale L.J. at 696 (emphasis in original). Under this test, Santa Clara has no "entitlement" to CVP power, as against other preferred entities. We think that *Roth* itself is dispositive of this phase of the case. There the Court held that an untenured teacher had no property interest in being rehired because his employment contract gave his employer unbridled discretion to refuse to renew after one year. The employer did not have to justify its decision not to renew the contract by showing "sufficient cause." Thus Roth had only an "abstract concern in being rehired," rather than a legitimate claim of entitlement. *Roth v. Board of Regents, supra*, 408 U.S. at 578, 92 S.Ct. 2701.

Having completed a year of teaching, Roth, like Santa Clara, could differentiate himself from others who sought the government benefit in question. However, Roth's desire to be rehired, his eligibility for contract renewal, and his special status as a former employee, were all insufficient to clothe him with a "legitimate claim of entitlement." Because the Board of Regents could refuse to rehire Roth for any reason whatsoever, Roth's interest did not rise to the level of an entitlement.

Santa Clara's situation vis-a-vis other preferred entities is comparable. While the City enjoys a statutory preference under the reclamation laws, the Secretary remains free to allocate the total power output of the CVP to other preference users. The Secretary need not justify his decision to discriminate against some preference entities in favor of others and, as we hold today, his decision to so discriminate is not judicially reviewable. Given the discretion which the reclamation laws vest in the Secretary in this respect,

we cannot accept Santa Clara's contention that it has any "entitlement" to power generated by the CVP as against other preferred entities. The trial court's holding that Santa Clara's status as a preference entity supported a claim of entitlement as against other preferred entities is erroneous. The City has no "property" interest in CVP power as against other preferred entities and consequently no procedural safeguards are constitutionally required in deciding between them.

We next consider "property" interest as against non-preference entities such as PG&E. It is clear that Santa Clara does have such an interest. In essence, our decision in *Arizona Power Pooling Ass'n v. Morton, supra*, so holds. To similar effect is *Pence v. Kleppe, supra*. There we held that Alaska natives, seeking allotments under the Alaska Native Allotment Act, had sufficient property interests to entitle them to due process. 529 F.2d at 140-42.

What process is due? We have held in part III B, *supra*, that it is a violation of the preference clause for the Secretary to sell CVP power to PG&E to the extent that he is refusing to sell it to an eligible preference entity that has offered to buy it and is ready, willing and able to receive it. There is but one justification possible for a refusal to sell to such a preference entity while selling to a non-preference entity: that, in the judgment of the Secretary, to sell to the preference entity will "impair the efficiency of the project for irrigation purposes," 43 U.S.C. § 485h(e).

It is not disputed that Santa Clara is a preferred entity that has asked for the power. The Secretary and PG&E claim that Santa Clara was not willing or able to receive what the Secretary could sell to it, and that during certain times the Secretary did not have power available to sell to Santa Clara. The Secretary may also claim that selling to

Santa Clara would or will impair the efficiency of the project for irrigation purposes. All of these claims can be considered and decided by the trial court. We see no need to remand this case to the Secretary for a due process type hearing.

VI.

PG&E'S COUNTERCLAIM

In 1971, the Secretary began withdrawing power from Santa Clara, gradually cutting back on the City's 1970 allotment of 120,000 kilowatts. Pursuant to a contract between PG&E and Santa Clara, executed in 1969, PG&E is obligated to supply Santa Clara's power requirements to the extent that they are not met by the Secretary. Taking the position that the Secretary's attempted withdrawals were illegal and therefore ineffective, Santa Clara refused after 1971 to pay PG&E for any of the power purportedly supplied by it. Because, as we have seen, PG&E transmits CVP power over its own lines pursuant to government contract, so that it is not possible to differentiate CVP power from PG&E power except by reference to written records, Santa Clara took the position that the power purportedly furnished by PG&E was actually CVP power coming in over PG&E's transmission lines. Since 1971, the money claimed by PG&E has been paid into an escrow account which as of March 1, 1977, contained nearly \$30,000,000.

PG&E and the Secretary both argue that regardless of the result in this case, PG&E is entitled to all of the money in the escrow. As we have seen, the trial court has, as an interim measure, awarded one-fourth of the money in the escrow to PG&E. (note 3, *supra*)

If, as we surmise, the government cannot justify the marketing of power to PG&E while denying it to Santa

Clara as a measure designed to safeguard the CVP's efficiency for irrigation purposes, then the past sales to PG&E of so much power as Santa Clara sought and was refused exceeded the Secretary's statutory authority under the reclamation laws. These past sales are void if unlawful, for administrative actions taken in violation of statutory authorization or requirement are of no effect. *Utah Power & Light Co. v. United States*, 1917, 243 U.S. 389, 410, 37 S.Ct. 387, 61 L.Ed. 791; *Federal Crop Insurance Corp. v. Merrill*, 1947, 332 U.S. 380, 384, 68 S.Ct. 1, 92 L.Ed. 10; *Federal Maritime Commission v. Anglo-Canadian Shipping Co.*, 9 Cir., 1964, 335 F.2d 255, 258.

The trial court decided that PG&E's right to the disputed funds hinges on the lawfulness of the Secretary's decision to sell power to PG&E while refusing to allocate as much power to Santa Clara as that City requested. Consequently, the court concluded, the fate of the escrow account must await action by the district court on remand.

PG&E and the Secretary vigorously attack this ruling. Their position, as stated by counsel for PG&E, is that power cannot be retroactively allocated to Santa Clara because "[a]t all times pertinent to this case all commercially available CVP power was sold to someone. . . . Accordingly, any retroactive reallocation of CVP power would necessarily entail either a whole or partial rescission of some or even all of the sales transactions between the United States and its CVP customers from August 1971 to the present." Opening Brief of PG&E at 17. We think, however, that a reallocation of power to Santa Clara, retroactive to 1971 when the withdrawals began, can be accomplished without affecting past sales to other CVP customers. This is so because the Secretary has, over the years, and pursuant to his contract with PG&E, built up a

sizeable "bank account" with PG&E. Presumably, that bank account is now available to retroactively satisfy the City's power needs.

Should the district court conclude on remand that the marketing of power to PG&E cannot be justified by reference to the reclamation laws, the government's "bank account" can simply be adjusted downward to reflect past sales to Santa Clara of so much power as the City sought unsuccessfully in the years after 1971. Such a readjustment of the bank account need affect neither past sales of power to other CVP users nor prior transactions between PG&E and its customers, aside from Santa Clara.

Without intending to bind the trial court to our suggestions, it seems to us that the consequences would be substantially as follows:

First, PG&E would be entitled to draw from the escrow the full amount (less, of course, what it has already received) that Santa Clara would have paid to the Secretary for the power that it is "receiving" retroactively. PG&E has paid the Secretary for that power, thereby discharging what should have been Santa Clara's duty. In addition, because it is Santa Clara that withheld the money, PG&E should receive interest at a reasonable rate on the moneys paid to it from the dates when those moneys should have been paid. (See 28 U.S.C. § 1961.) The remaining money in the escrow would go to Santa Clara.

Second, the power reallocated to Santa Clara should be treated as drawn from the Secretary's "bank account" with PG&E, thereby diminishing the amount of the power that the Secretary is entitled, under the PG&E contract, to repurchase.

Third, because PG&E will have received for the power sold by it to Santa Clara only the price that Santa Clara

would have paid to the Secretary if he had allocated that power to Santa Clara, but that power is being treated as drawn by the Secretary from the "bank account," it would appear that PG&E will have a claim against the Secretary. Presumably, that claim would be for the contract price applicable under the Secretary's contract with PG&E at the times as of which reallocation is made, less the price PG&E will have received from Santa Clara, plus reasonable interest for late payment. (See 28 U.S.C. § 2411(b) and § 2516.)

However, PG&E has counterclaimed only against Santa Clara. It has not filed any claim for relief against the Secretary. We express no opinion as to whether such a claim against the Secretary can be filed or considered by the trial court, see 28 U.S.C. § 1346(a)(2), *Lowell O. West Lumber Sales v. United States*, 9 Cir., 1959, 270 F.2d 12, 19-20, or in the Court of Claims, see 28 U.S.C. § 1491.

We base our assumptions as to interest upon a further assumption that PG&E is an innocent third party, caught between the conflicting claims of Santa Clara and the position of the Secretary.

These suggestions are in line with the ancient and favorite maxim of equity, that equity regards that as done which ought to be done. It is readily applicable here, because all parties to the contracts that are involved, PG&E, the Secretary, and Santa Clara, are before the court, and because what we suggest does not invalidate or violate either contract. The contract between PG&E and the Secretary expressly provides that the Secretary is to supply all of his preferred customers before selling to PG&E. It also expressly provides for the so-called banking arrangement. The contract between PG&E and Santa Clara requires sale by PG&E and purchase by Santa Clara of only that amount

of power that exceeds the amount sold by the Secretary to Santa Clara.

The foregoing suggestions are just that; they are not directions because we recognize that the questions giving rise to them have not been fully considered up to now, and all parties should have an opportunity to present their views about them to the trial court. That court is to arrive at its own decision, taking into account, but not being bound by, our suggestions.

VII.

SOVEREIGN IMMUNITY

On October 21, 1976, Congress enacted Public Law 94-574, amending 5 U.S.C. § 702, to remove the defense of sovereign immunity in an action seeking relief other than money damages and stating a claim that an agency or officer or employee thereof acted or failed to act in an official capacity or under color of legal authority. In *Hill v. United States*, 9 Cir., 1978, 571 F.2d 1098 at 1102 (Slip op., page 45 at 49) we held that this amendment is applicable to a pending action. This statute would have the effect of removing the defense of sovereign immunity, if it were otherwise available in this case. However, it is not necessary to rely on that statute here.

It has long been established that sovereign immunity poses no bar to a suit against a federal officer who is alleged to have acted unconstitutionally or in excess of his statutory authority. *Larson v. Domestic & Foreign Commerce Corp.*, 1949, 337 U.S. 682, 689, 69 S.Ct. 1457, 93 L.Ed. 1628; *Starbuck v. City and County of San Francisco*, 9 Cir., 1977, 556 F.2d 450, 457 n. 14; *Washington v. Udall*, 9 Cir., 1969, 417 F.2d 1310, 1314.

PG&E and the federal defendants concede that Santa Clara's various claims fall squarely within these exceptions to the general rule that an action cannot be maintained against the sovereign, absent consent. However, they cite *Larson v. Domestic & Foreign Commerce Corp.*, *supra*, for the proposition that

. . . a suit may fail, as one against the sovereign, even if it is claimed that the officer being sued has acted unconstitutionally or beyond his statutory powers, if the relief requested cannot be granted by merely ordering the cessation of the conduct complained of but will require affirmative action by the sovereign or disposition of unquestionably sovereign property.

337 U.S. at 691, n. 11, 69 S.Ct. at 1462.

This court has never interpreted *Larson* as an absolute bar to every action against the sovereign in which affirmative relief or the recovery of government property is sought. *Washington v. Udall*, *supra*, 417 F.2d at 1317-18. We have construed the case more narrowly to mean "not that a suit *must* fail but only that it *may* fail if the relief sought would work an intolerable burden on the government which outweighs any considerations of private harm." *De Lao v. Califano*, 9 Cir., 1977, 560 F.2d 1384 at 1391.

The retroactive power allocation which Santa Clara seeks would not, we think, work an intolerable burden on governmental functioning. As noted above, the relief requested by the City can be granted by simply adjusting the government's bank account with PG&E. Such an adjustment would not affect prior transactions between the government and its other CVP customers. It would merely hasten depletion of the bank account and so would accelerate the date upon which customer demand for CVP power will exceed the

available supply. Inasmuch as all of the banked power is ultimately committed to preference users, depletion of the account with PG&E is, in any event, inevitable. We do not think that the government will bear an intolerable burden if it is forced to repurchase banked power at an earlier date than was initially anticipated. Balancing the economic injury which Santa Clara has suffered by virtue of its partial exclusion from the CVP against the minimal inconvenience which the government will experience if the Secretary is forced to alter slightly his long-range marketing plan, we conclude that this action is not barred on grounds of sovereign immunity.

VIII.

THE NATIONAL ENVIRONMENTAL POLICY ACT

Santa Clara argued below and reiterates here that the Secretary violated NEPA, 42 U.S.C. § 4321 *et seq.*, by failing to file an environmental impact statement before denying the City's requests for firm power and initiating power withdrawals. NEPA, which requires agencies to file environmental impact statements whenever "major Federal actions" are contemplated, defines those actions as ones "significantly affecting the quality of the human environment." 42 U.S.C. § 4332(2)(C). The trial court concluded that the Secretary's marketing decisions were not major Federal actions of this kind and because no factual dispute was presented with respect to that key issue, granted the federal defendants' motion for summary judgment.

Seeking to bring the Secretary's allocation decisions within NEPA's definition of major Federal action, Santa Clara alleges that the government's refusal to sell it firm power will (1) force the City to construct its own generat-

ing facilities, and (2) cause industries to relocate to communities where electricity is available at lower cost. These effects, the City claims, will have a significant deleterious impact on the environment.

Because the amount of low cost CVP power is finite, demand will likely outstrip supply in the future as it has in the past. Regardless of whether it is Santa Clara or some other preference entity that forced to look to private sources for the supply of electric power, the environmental consequences will be similar. If the demand for power exceeds the available supply, then new generating facilities must be constructed somewhere, if not in Santa Clara.

Even accepting as true Santa Clara's rather fanciful hypotheses concerning the likely impact of the Secretary's decisions on its small piece of the environment, we think it highly improbable that one allocation scheme will have a more deleterious impact than any other when the total geographic area served by the CVP is considered. As the court stated in *Hanly v. Kleindienst*, 2 Cir., 1972, 471 F.2d 823, 830, *cert. denied*, 1973 412 U.S. 908, 93 S.Ct. 2290, 36 L.Ed.2d 974, an agency must consider "in deciding whether a major federal action will 'significantly' affect the quality of the human environment . . . the absolute quantitative adverse environmental effects of the action itself." No such absolute effects are threatened by the Secretary's decision to allocate CVP power in one way rather than another.

CONCLUSION

The summary judgment against Santa Clara on its claim under the National Environmental Policy Act is affirmed.

The judgment dismissing the action is reversed.

The decision that the Secretary's actions in deciding the terms on which he will sell power to one preference

customer as compared to others are reviewable is reversed.

The decision that the Secretary's sale of power to PG&E does not violate the preference clause is vacated.

The decision that the Secretary is required to formulate and adopt rules governing the sale of CVP power is reversed. The remand of the action to the Secretary for that purpose is reversed.

In all other respects the decision of the trial court is affirmed.

The case is remanded to the trial court for further proceedings consistent with parts III B, V, and VI of this opinion.

Appendix B

*United States Court of Appeals
For the Ninth Circuit*

City of Santa Clara, California,

Appellant,

vs.

Cecil Andrus, Individually and as Secretary of the Interior, and R. Keith Higginson, Individually and as Commissioner of the Bureau of Reclamation, United States Department of the Interior,

Appellees.

Cecil Andrus, Individually and as Secretary of the Interior, and R. Keith Higginson, Individually and as Commissioner of the Bureau of Reclamation, United States Department of the Interior,

Appellants,

vs.

City of Santa Clara, California,

Appellee.

Pacific Gas & Electric Company,

Appellant,

vs.

City of Santa Clara, California,

Appellee.

Nos. 77-1110, 77-1270, No. 77-1189, No. 76-3670

ORDER

Before: DUNIWAY and CARTER, Circuit Judges,
and BURNS, District Judge

I.

This court's opinion of February 1, 1978 (1978 Slip Opinions at 339), is amended as follows:

1. The first full paragraph on page 351 of the slip opinion is amended to read:

In this case the Secretary has marketed CVP power to PG&E, a non-preference entity, during times when a preference customer was having its allotment gradually reduced, over its objection. It is claimed that PG&E's allotment was more than adequate to satisfy Santa Clara's full requirements. Nevertheless, the Secretary has, since 1971, progressively reduced Santa Clara's withdrawable allocation.

2. The second sentence of the first full paragraph in the right-hand column of page 351 is amended to read as follows:

In the meantime, however, to the extent that Santa Clara could have purchased the power, a private utility is profiting from the low cost of federal power at the expense of a preferred entity.

3. The sentence in the first line on page 352 is amended to read:

That may be the case here.

4. The third sentence of the second full paragraph on page 353, beginning with the words "Because we think," is stricken.

5. A new paragraph is added, in the first column on page 353, immediately preceding the heading "C. Congressional Approval," reading as follows:

PG&E and the Secretary argue that during at least part of the period beginning in 1972, when the Secretary was gradually reducing Santa Clara's allotment, CVP did not have the energy necessary to supply Santa Clara, and Santa Clara was not willing or able to take such intermittent power as was being sold to PG&E. It is also claimed that some of the power sold by the Secretary to PG&E may not have been subject

to the preference clause. The trial court did not decide these questions. They can be considered on remand, as can the issue of CVP's efficiency for irrigation purposes if the Secretary chooses to raise it.

6. The first full paragraph in the second column on page 358, beginning with the words "Here, the Secretary does not deny," is stricken, and a new paragraph is inserted reading as follows:

It is not disputed that Santa Clara is a preferred entity that has asked for the power. The Secretary and PG&E claim that Santa Clara was not willing or able to receive what the Secretary could sell to it, and that during certain times the Secretary did not have power available to sell to Santa Clara. The Secretary may also claim that selling to Santa Clara would or will impair the efficiency of the project for irrigation purposes. All of these claims can be considered and decided by the trial court. We see no need to remand this case to the Secretary for a due process type hearing.

7. The footnote signal "9" at the top of page 361, and the footnote at the bottom of that page, are stricken.

8. At the top of page 361, immediately following the heading "SOVEREIGN IMMUNITY," a new paragraph is inserted reading as follows:

On October 21, 1976, Congress enacted Public Law 94-574, amending 5 U.S.C. § 702, to remove the defense of sovereign immunity in an action seeking relief other than money damages and stating a claim that an agency or officer or employee thereof acted or failed to act in an official capacity or under color of legal authority. In *Hill v. United States*, 9 Cir., 1978, _____ F.2d _____ (Slip op., page 45 at 49) we held that this amendment is applicable to a pending action. This

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Statute would have the effect of removing the defense of sovereign immunity, if it were otherwise available in this case. However, it is not necessary to rely on that statute here.

II.

The statement of amici curiae City of Palo Alto, et al., may be filed. Except as they have been granted in part by the foregoing amendments, the Petition for Rehearing of Pacific Gas and Electric Company and the Federal Defendants-Appellees', Cross-Appellants' Motion for Modification are denied. The Petition for Rehearing of the City of Santa Clara is denied.

The Suggestion of a Rehearing In Banc by the City of Santa Clara has been transmitted by the Clerk to all judges of the court who are in regular active service, and no judge in regular active service, or who was a member of the panel that rendered the decision, has requested a vote on such suggestion. The suggestion of a rehearing in banc is rejected.

Appendix C

City of Santa Clara, California,

Plaintiff,

v.

Thomas Kleppe, Individually and as Secretary of the Interior, and Gilbert Stamm, Individually and as Commissioner of the Bureau of Reclamation, United States Department of the Interior,

Defendants,

PACIFIC GAS & ELECTRIC CO.,

Intervenor-Defendant.

No. C-75-1574.

United States District Court,
N. D. California.

July 23, 1976.

DECISION

CONTI, District Judge.

This case brings for judicial resolution a controversy over low cost federal hydroelectric power emanating from the Bureau of Reclamation's California Central Valley Project (CVP). The principal parties are the California City of Santa Clara on one side and the U. S. Department of the Interior and its Bureau of Reclamation on the other. Pacific Gas & Electric, a private utility company, has intervened as party defendant. Simply stated, Santa Clara wants more low cost federal power than the federal defendants have allocated to it, and suggests that the Bureau's allocation scheme is legally defective. The Bureau responds that how it allocates the CVP power under its control is unreviewably discretionary, but, for that matter, the allocation

scheme was fairly formulated and is rationally based. PG&E, long an integral part of the Bureau's power allocation plan, and the source to which Santa Clara would most likely have to look for satisfaction of its power needs if the court upholds the Bureau's scheme, supports the Bureau's position. Santa Clara would prefer to purchase CVP power at \$.005 per kilowatt-hour rather than PG&E power at \$.019 per kilowatt-hour.¹

I. Project Authority and Background.

CVP is a multipurpose project consisting of numerous dams, hydroelectric power generation and transmission facilities and irrigation canals, located in the Central Valley of California and the surrounding mountains.² Although the production of hydro-generated power is not the primary purpose of the Project, the amount of electricity generated is substantial and serves a large number of customers in northern and central California.³

The Central Valley Project Authorization Act, 50 Stat. 850, provides in part:

Sec. 2. . . . The entire Central Valley project, California, heretofore authorized and established under the

1. See Plaintiff's Opposition to Defendants' Motion for Summary Judgment, Doe.No. 16, at page 5, n. 1.

2. The Project is described in fine detail in *Ivanhoe Irrigation Dist. v. McCracken*, 357 U.S. 275, 78 S.Ct. 1174, 2 L.Ed.2d 1313 (1958).

3. At the time the complaint in this action was filed, the direct customers of the CVP were five municipal corporations in addition to Santa Clara (Roseville, Palo Alto, Redding, Biggs and Gridley); one public utility district (Shasta Dam Area Public Utility District); six federal agencies; five state agencies; one rural electric cooperative (Plumas Sierra Cooperative); and PG&E. The number of ultimate consumer-customers receiving power from these direct customers is in the hundreds of thousands. See Defendants' Motion for Summary Judgment, Doe.No. 15, at page 5, n. 2.

provisions of the Emergency Relief Appropriation Act of 1935 (49 Stat. 115) and the First Deficiency Appropriation Act, fiscal year 1936 (49 Stat. 1622), is hereby reauthorized and declared to be for the purposes of improving navigation, regulating the flow of the San Joaquin River and the Sacramento River, controlling floods, providing for storage and for the delivery of the stored waters thereof, for the reclamation of arid and semiarid lands and lands of Indian reservations, and other beneficial uses, and for the generation and sale of electric energy as a means of financially aiding and assisting such undertakings and in order to permit the full utilization of the works constructed to accomplish the aforesaid purposes: *Provided further*, That, except as herein otherwise specifically provided, the provisions of the reclamation law, as amended, shall govern the repayment of expenditures and the construction, operation, and maintenance of the dams, canals, power plants, pumping plans, transmission lines, and incidental works deemed necessary to said entire project, and the Secretary of the Interior may enter into repayment contracts, and other necessary contracts, with State agencies, authorities, associations, persons, and corporations, either public or private, including all agencies with which contracts are authorized under the reclamation law, . . . : *And provided further*, That the said dam and reservoirs shall be used first, for river regulation, improvement of navigation, and flood control; second, for irrigation and domestic uses; and third, for power. See also, Central Valley Project Reauthorization Act, 16 U.S.C. § 695d.

Thus incorporated into the Central Valley Project Authorization Act is the following provision of the Reclamation Project Act of 1939, found in Section 9(e), 43 U.S.C. § 485h(e):

Any sale of electric power or lease of power privileges, made by the Secretary in connection with the opera-

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tion of any project or division of a project, shall be for such periods, not to exceed forty years, and at such rates as in his judgment will produce power revenues at least sufficient to cover an appropriate share of the construction investment at not less than 3 per centum per annum, and such other fixed charges as the Secretary deems proper: *Provided further*, That in said sales or leases preference shall be given to municipalities and other public corporations or agencies; and also to cooperatives and other nonprofit organizations financed in whole or in part by loans made pursuant to the Rural Electrification Act of 1936 [and any amendments thereof]. . . .

* * * * *

No contract relating to municipal water supply or miscellaneous purposes or to electric power or power privileges shall be made unless, in the judgment of the Secretary, it will not impair the efficiency of the project for irrigation purposes.

There is no question, and no argument to the contrary, that the "preference clause" of Section 9(c) applies to sales of federally-generated hydroelectric power from CVP, see *Arizona Power Pooling Assn. v. Morton*, 527 F.2d 721 (9th Cir. 1975), nor does the government dispute that Santa Clara is entitled to preference in the sale of the CVP power. Rather, the controversy centers around the Bureau's allocation decision which treats other preference customers more favorably than Santa Clara in the fierce competition for limited low cost federal CVP power.

Santa Clara has received varying amounts of CVP power since 1965. The City had lodged many requests for power with the Bureau, beginning in 1960, but its early requests acknowledged that it could not provide a market for federal power until late 1967, at which time its then existing power

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requirements contract with PG&E, which had been supplying all the City's power needs, would expire. Wishing to insure a supply of federal power at the earliest opportunity, however, the City sought a prospective allocation to satisfy its future, post-1967, needs.⁴ The Bureau responded that it could not then commit itself to such a future allocation, in view of anticipated Project requirements, but that the City's application would be kept on file for consideration nearer the time Santa Clara could actually purchase power, free from the PG&E contract.⁵

Meanwhile, early in 1963 additional hydroelectric power became available to the CVP with the coming on line of power from the Trinity River Division of the CVP.⁶ More energy became available as the generating units of that division proceeded to completion in May of 1964. While a notice of this additional power was sent to all entities entitled to preference status, including Santa Clara,⁷ requesting estimates of present load requirements and future load growth, this additional power was allocated to then existing preference customers only, excluding Santa Clara, because of the City's inability to take power immediately.⁸

Concerned that all CVP power was fast becoming spoken for, and dissatisfied with the Bureau's repeated assurances that the City's application would receive due consideration, the City, in July, 1964, telegraphed the Secretary of the Interior directly, requesting an immediate allocation of CVP power, on a withdrawable basis if absolutely necessary. The

4. See Plaintiffs' Exhibit 2 and 4.

5. See Defendants' Exhibit 3.

6. See Plaintiff's Exhibit 3.

7. See Plaintiff's Exhibit 3.

8. See Defendants' Motion for Summary Judgment, Doc. No. 15, at page 7.

City asserted that its contract with PG&E was not binding on it and should not bar its eligibility to receive CVP power. The Secretary responded that 75 megawatts of power could be offered if the City could make arrangements with PG&E for its transmission. The letter warned, however, that the power would be withdrawn when required to meet previously promised, long-term firm allocations to other preference customers.⁹ The City thereupon submitted a formal application for that amount, but again requested that it be kept in mind for a firm, non-withdrawable allocation when and if additional power became available, and set forth its predicted power needs through 1980.¹⁰

PG&E objected to the Department's offering power to Santa Clara while the utility's requirements contract with the City was still outstanding. The Secretary of the Interior concluded, however, that the Department had to recognize its statutory responsibilities in the marketing of federal power to preference customers, including Santa Clara, and that the fact of a dispute between the City and PG&E over the validity of their power requirements contract would not relieve the Department of its statutory duty to provide available service to Santa Clara.¹¹

On November 30, 1965, Santa Clara and the Bureau finally contracted for the purchase of CVP power on a withdrawable basis.¹² Santa Clara's allotment under the

9. See Plaintiff's Exhibit 9.

10. See Plaintiff's Exhibit 10.

11. See Plaintiff's Exhibit 12. The Secretary's decision was based in part on advice requested and received from the U.S. Solicitor's office to the effect that the statute unequivocally mandated offering available power to preference customers, and that the Department could not legally be involved in the contract dispute between Santa Clara and PG&E. See Plaintiff's Exhibit 13.

12. See Defendants' Exhibit 7.

original contract was 75,000 kilowatts, but was revised upward several times by amendments until it reached a peak of 120,000 kilowatts in November, 1970. All these increases had the City's assent. In 1971, however, the Bureau began to withdraw power from the City, by contract amendments which were not consented to, such that by July, 1974, the maximum kilowattage receivable was 71,450. Subsequent withdrawals will most probably take place,¹³ and it is alleged that in the not too distant future, the power and associated energy available for purchase by Santa Clara from the federal CVP source will drop to zero. At times when the City's requirements could not be met from federal power sources, Santa Clara has had to purchase the difference from PG&E pursuant to an existing contract.

During the period Santa Clara was receiving withdrawable power, it reiterated its request for a non-withdrawable allocation. As additional power became available, however, the Bureau decided to hold most, if not all, of it for preference customers already receiving a non-withdrawable allocation, so as to meet their load growth needs, rather than to offer this power to existing customers with withdrawable allocations, such as Santa Clara, on a non-withdrawable basis.¹⁴

13. See Plaintiff's Exhibit 24, which indicates that as of May 1, 1976, there was an anticipated withdrawal from Santa Clara of an additional 24,200 kilowatts.

14. See Plaintiff's Exhibits 17, 20, 21, and 22, and Defendants' Exhibits 11, 12, and 13.

For example, on March 22, 1966, the Bureau agreed to sell to the Sacramento Municipal Utility District up to 70,000 kilowatts of power in addition to the District's then contract rate of delivery of 290,000 kilowatts. Between the contract execution date and April 1, 1973, the District could receive as much as 70,000 kilowatts in addition to its then allotment by requesting such in writing. After

It is this discrimination against Santa Clara, a preference customer with only a short term, withdrawable

April 1, 1973, the contract rate of delivery to the District was set at 360,000 kilowatts. This new allocation to the District was not subject to withdrawal to meet the demands of other preference customers, as was the allocation of power made to Santa Clara in 1965. See Plaintiff's Exhibit 16, Letter Agreement between Sacramento Municipal Utility District and the Bureau, at par. 4 and 5. A similar contract was entered into in December, 1966, with Westlands Water District. See Plaintiff's Exhibit 23.

Again, on August 22, 1967, the Bureau agreed to sell to the City of Palo Alto, California, an additional 21,000 kilowatts of firm power over its then contract rate of delivery of 79,000 kilowatts. Further, the City of Palo Alto was promised its total future load growth requirements through 1980, with the proviso that if total firm load of all preference agencies exceeded the Project output, as preference agency required load increased in subsequent years, a pro rata allocation would be made, based on the ratio of city load to total load. See Art. 7 of Contract between Palo Alto and Bureau, Plaintiff's Exhibit 18. See also original Bureau-Palo Alto Contract, Plaintiff's Exhibit 8. Contrast the language found in Article 7 of the revised Palo Alto-Bureau contract, Plaintiff's Exhibit 18, with the language found in Article 9 of the Santa Clara-Bureau contract, Plaintiff's Exhibit 14. The latter contract states, in pertinent part:

Provided, That power and energy deliveries made under the terms of this agreement are deemed to be power and energy temporarily available from unused allocated firm Central Valley Project power and is also power and energy available within the project dependable capacity for preference agency use. Therefore, power and energy deliveries as contemplated herein will be withdrawn upon 30 days written notice to [Santa Clara], to any extent necessary to limit the total preference agency power demand to an amount within the project dependable capacity of the Central Valley Project. Withdrawal of power and energy up to a total amount equal to the contract rate of delivery specified herein shall constitute termination of this agreement.

The effect of this language vis-à-vis the language found in Bureau contracts with other preference agencies with *non-withdrawable* allocations, such as Palo Alto, is to provide for withdrawals of power from Santa Clara and other customers with withdrawable allocations, when such power is necessary to meet load growths of preference customers with non-withdrawable allocations, within project dependable capacity. Thus, once project dependable capacity is reached due to load growths of these customers, which the Bureau has contracted to satisfy, Santa Clara's allocation will have

been completely withdrawn, and its contract with the Bureau will be considered terminated. It is only at this point—when project dependable capacity is reached—that the customers with non-withdrawable allocations will have to suffer a limitation on power to meet load growth, according to the pro rata scheme in their contracts. See Defendants' Exhibit 13. The effect of this difference in contract language is, of course, to treat Santa Clara substantially differently from other preference customers in terms of the CVP power it can receive.

Preference customers with contracts providing for a long-term, non-withdrawable allocation of firm power, like Palo Alto's, include the California cities of Biggs, Gridley, Redding, and Roseville, the Plumas-Sierra Rural Electric Cooperative, and the Shasta Dam Public Utilities District, as well as the Sacramento Municipal Utility District and the Westlands Water District noted above.

Preference customers with contracts providing for a short-term, withdrawable allocation of power, like Santa Clara's, include Stanford Linear Accelerator Center, A.E.C. Livermore, A.E.C. Sandia, Beale Air Force Base, DeWitt Hospital, State of California, Grapevine Power Plant, State of California, Mather Air Force Base, Mather Wherry Housing, Mare Island Naval Shipyard, NAS LeMoore, NAS Moffett, Naval Communications Station Stockton, Naval Radio Station, Dixon, Naval Weapons Station, Concord, Northern California Youth Center, University of California at Davis, and U.S. I.A., Voice of America. As of May 1, 1971, Santa Clara's share of this short term, withdrawable power constituted roughly two-thirds of the total CVP power marketed in this manner. See Defendants' Exhibit 16, particularly the attachment to the Bureau's letter showing anticipated withdrawals from each such customer. Santa Clara is the only major municipality on the list of preference customers with short-term, withdrawable allocations of CVP power. Thus, as far as the record shows, all other municipal users of CVP power fall into the category of preference customers receiving a long-term, non-withdrawable allocation. See also Defendants' Submission of CVP Data, Doc. No. 23, which shows kilowatt and kilowatt-hour usage for each CVP customer for 1960-1975. The 1975 consumption figures for *municipal users* are shown in that submission to be as follows:

Municipal Customer	Kilowatts
City of Biggs	2,440
City of Gridley	5,967
City of Palo Alto	139,793
City of Redding	52,980
City of Roseville	36,520
City of Santa Clara	73,800
Sacramento Municipal Utility Dist.	360,000
Shasta Dam Public Utilities Dist.	4,186
Plumas-Sierra Rural Elec. Coop.	10,220

allocation, in favor of other similarly situated¹⁵ preference customers, who not only originally received a long-term, non-withdrawable allocation but who also were afforded additional non-withdrawable power as it became available, of which the City primarily complains here. Santa Clara alleges that the Bureau's creation of this class of what the City terms "super-preference customers" contravenes governing legal principles. The defendants do not dispute that such discrimination between preference customers has been practised;¹⁶ rather, it is their position that it is within the unreviewable discretion granted them by Congress to so discriminate. Alternatively, they assert that the discriminatory aspects of the allocation scheme are rationally based.

II. *Specific Legal Claims.*

Santa Clara marshals the following legal arguments in support of its claims:

(1) It contends that the federal government has transgressed the commands of the Federal Reclama-

Even assuming that Santa Clara's actual utilization of power is presently somewhat in excess of 120,000 kilowatts (the maximum it received from CVP in 1971), the above figures show that the City's power usage is neither significantly greater nor significantly lesser than the usage of other municipal preference customers, who have long-term, non-withdrawable allocations, and the difference in treatment of Santa Clara cannot be attributed to any such factor.

When withdrawals from short-term allocation customers have become necessary, apparently the Bureau has calculated the amount of such withdrawals per customer on some sort of pro rata basis. For example, for the withdrawals anticipated during the summer months of 1971, see Defendants' Exhibit 16, attachment.

15. "Similarly situated" in the sense of being a municipal user with load demands roughly equivalent to other municipal users of CVP power.

16. See Defendants' Motion for Summary Judgment, Doc.No. 15, at pages 6-9, 10.

tion Laws, 43 U.S.C. § 371 et seq. (a) by selling power to PG&E, a private entity not entitled to the statutory preference contained in 43 U.S.C. § 485h(c), and (b) by discriminating against one preference customer, Santa Clara, in favor of other preference customers;

(2) It says that if not the statute, then the Fifth Amendment, with its equal protection concepts of due process, bars such discrimination;

(3) The City claims a denial of the procedural due process protected by the Administrative Procedure Act, 5 U.S.C. § 551 et seq., in the federal defendants' failure to establish, by regulation or otherwise, without opportunity for input by interested parties, any standards or guidelines by which is regulated the method of CVP power allocation among preference customers;

(4) It likewise claims that whatever procedures that might have been followed by the Bureau in determining allocations and types of allocations were so deficient as to deny due process; and, finally,

(5) Santa Clara maintains that defendants' actions violate the National Environmental Policy Act, 42 U.S.C. § 4321 et seq.

The Department and the Bureau, and PG&E, in addition to maintaining that their allocation scheme is unreviewable or in any event rational, respond first, that this is an unconsented suit against the sovereign and is, therefore, barred; second, that Congress has approved the Bureau's allocation scheme; third, that the provisions of the Administrative Procedure Act, 5 U.S.C. § 551 et seq., cited by plaintiff are either inapplicable or were satisfied; fourth,

that the City has no property interest entitled to due process protection; and fifth, that NEPA does not apply.

We now have before us (1) federal defendants' motion, joined in by PG&E, for summary judgment on all due process issues and alleged violations of the Federal Reclamation Laws; (2) defendants' motion for summary judgment on the NEPA claim; (3) plaintiff's motion for summary judgment on the due process issues; and (4) PG&E's motion for summary judgment on its counterclaim against Santa Clara for monies due under its power sale contract. For reasons hereinafter stated, the court denies (1), (3), and (4), and grants (2).

A. Sovereign Immunity.

The threshold jurisdictional question raised interestingly enough in the first instance by PG&E and not the sovereign's officers, of whether this suit is barred by the doctrine of sovereign immunity, must logically be entertained first. While the law of the subject in some respects is confusing, *Land v. Dollar*, 330 U.S. 731, 67 S.Ct. 1009, 91 L.Ed. 1209 (1947), the inapplicability of the doctrine to this case is relatively clear. Since *Ex parte Young*, 209 U.S. 123, 28 S.Ct. 441, 52 L.Ed. 714 (1908), it has been established that sovereign immunity is no defense in suits against officers who allegedly act unconstitutionally or in excess of authority. *Georgia R. R. & Banking Co. v. Redwine*, 342 U.S. 299, 72 S.Ct. 321, 96 L.Ed. 335 (1952); *Philadelphia Co. v. Stimson*, 223 U.S. 605, 32 S.Ct. 340, 56 L.Ed. 570 (1912); *Ickes v. Fox*, 300 U.S. 82, 57 S.Ct. 412, 81 L.Ed. 525 (1937); *United States v. Lee*, 106 U.S. 196, 1 S.Ct. 240, 27 L.Ed. 171 (1882). This case presents just such allegations. PG&E's cases, *Larson v. Domestic & Foreign Corp.*, 337 U.S. 682, 69 S.Ct. 1457, 93 L.Ed. 1628 (1949); *Malone v. Bowdoin*, 369 U.S. 643, 82 S.Ct. 980, 8 L.Ed.2d 168 (1962); *Dugan v. Rank*, 372

U.S. 609, 83 S.Ct. 999, 10 L.Ed.2d 15 (1963); and *City of Fresno v. California*, 372 U.S. 627, 83 S.Ct. 996, 10 L.Ed.2d 28 (1963), while presenting some fascinating questions regarding the future course of the law of the doctrine as it applies in suits against officers who act *within* valid authority, are not to the contrary. See generally 3 Davis, *Administrative Law Treatise*, §§ 27.03-27.05; and 1970 Supp. § 27.01.

Since we hold that under established law, the doctrine of sovereign immunity does not bar this action, we need not consider the possibility that the Administrative Procedure Act operates as a partial waiver of sovereign immunity, which question is in a state of considerable confusion. Compare *Adams v. Witmer*, 271 F.2d 29 (9th Cir. 1958) (APA authorized suit against officer; sovereign immunity not discussed), with *State of Washington v. Udall*, 417 F.2d 1310 (9th Cir. 1969) (court avoided sovereign immunity by holding that the Secretary exceeded his authority); *Seamwell Laboratories v. Shaffer*, 137 U.S. App.D.C. 371, 424 F.2d 859 (1970) (APA waives sovereign immunity); *Kletschka v. Driver*, 411 F.2d 436 (2d Cir. 1969) (APA waives sovereign immunity concerning those claims which come within its scope).

B. Violation of Federal Reclamation Laws.

(1) Preference Clause Issue.

Plaintiff notes that substantial amounts of CVP power have been sold to PG&E over the years¹⁷ and maintains that had this power been allocated to preference customers, as the statute requires, there would be no controversy since all of Santa Clara's requirements for power would be

^{17.} See Defendants' Submission of CVP Data, Doe No.23. Since 1965, PG&E has purchased in excess of 80,000 kilowatts annually; the 1975 allocation to the utility was 337,000 kilowatts.

met. There is no dispute as to the basic facts: the preference clause clearly applies, and PG&E is not a preference customer.

There is, however, some dispute as to whether this power has actually been unconditionally "sold" to PG&E in the standard sense. If so, the statute has been violated. PG&E and the Bureau maintain that while power *is* sold to PG&E, it is subject to the Bureau's right to repurchase an equivalent amount of energy at a later date for delivery to preference customers.

This is indeed the case. The contract between the Bureau and PG&E¹⁸ provides that capacity and energy sold to PG&E must be recorded in special capacity and energy accounts and is subject to Bureau repurchase rights. See Contract 2948A, Article 20(a, b, c, & e) and Article 21. In essence, energy is "banked" by PG&E for future Bureau use. The bank account provisions of the contract were included to enable the Secretary of the Interior to carry out a power marketing plan developed in 1964 to meet the long-term needs of preference customers.¹⁹ The withdrawals of power from Santa Clara beginning in 1971 were made as a part of this plan.²⁰ In order for the Bureau to satisfy load growth of the then existing preference customers

18. The PG&E-Bureau contract (Contract 2948A) is attached as Appendix C to Supplemental Memorandum of PG&E in Support of Defendants' Motion for Summary Judgment, Doc.No.27.

19. The bank accounts and the Secretary's marketing plan are discussed in Defendants' Exhibit 23, "Report to the Appropriations Committees of the Congress of the United States Recommending a Plan of Construction and Ownership of EHV Electric Interties Between the Pacific Northwest and the Pacific Southwest" (Committee Print, 1964) at pp. 21, 35-37, 39, and 43-46. The discussion at pages 35, and 43-46, describes the role of the bank accounts in the power marketing scheme.

20. See Plaintiff's Exhibit 22, at pages 1-2.

through 1980 (the time targeted in the 1964 marketing scheme), and at the same time have power available for anticipated Bureau loads coming on line (such as the San Luis pumping unit scheduled for 1966-67), it was necessary to make provision in the scheme for some sort of power banking arrangement, and the Bureau—PG&E contract does just that. Hence, the court finds that the "sales" of power to PG&E do not violate the preference provisions of 43 U.S.C. § 485h(e).²¹

(2) *Discrimination in Treatment of Preference Customers.*

The relevant provisions of the Central Valley Authorization Act and the Federal Reclamation Laws are set out above. For purposes of this section, the operative provision is that found in 43 U.S.C. § 485h(e) which mandates that in the sales of CVP power, "preference shall be given to municipalities." Santa Clara argues that this language should be read to mean that all preference entities shall be treated equally in the allocation of CVP power.

(a) *Reviewability of Defendants' Actions.*

The defendants and PG&E argue strenuously that the federal statutes governing the sale of CVP power to preference customers represent such a broad grant of discretion

21. While there is no legitimate preference clause issue in this case, Santa Clara's objection to the sales to PG&E is one aspect of its larger challenge to the marketing scheme in general, under which preference entities which were Bureau CVP customers in 1964, when the plan was devised, were promised not only non-withdrawable present allocations of CVP power, but also allocations for load growth through 1980. The sales to PG&E, and the banking of such power by that company, were for the purpose of reserving power for the existing preference customers' load growth. As such, Santa Clara would claim, these sales are just one more example of discrimination between preference customers, because they are for the purpose of satisfying the power needs of a group of preference customers of which Santa Clara was not allowed to become a part.

in the Secretary of the Interior that his actions thereunder are not subject to judicial review. They rely on the Administrative Procedure Act, 5 U.S.C. § 701(a)(2) which makes that Act, with its provision for judicial review of agency action under Section 702, inapplicable "to the extent that . . . agency action is committed to agency discretion by law."

Judicial reviewability of administrative action is the rule, and nonreviewability an exception which must be demonstrated, and which should result only from a showing of "clear and convincing evidence" of a legislative intent to restrict judicial review. *Barlow v. Collins*, 397 U.S. 159, 90 S.Ct. 832, 25 L.Ed.2d 192 (1969); *Abbott Laboratories v. Gardner*, 387 U.S. 136, 87 S.Ct. 1507, 18 L.Ed.2d 681 (1967); *Arizona Power Pooling Assn. v. Morton*, 527 F.2d 721 (9th Cir. 1975). See also H.R. Rep. No. 1980, 79th Cong., 2d Sess., 41.

As the Supreme Court has stated, the "committed to agency discretion" exception is a very narrow one, applicable only in "those rare instances where 'statutes are drawn in such broad terms that in a given case there is no law to apply.'" *Citizens to Preserve Overton Park v. Volpe*, 401 U.S. 402, 410, 91 S.Ct. 814, 820, 28 L.Ed.2d 136 (1971).

Searching for law to apply, Santa Clara makes alternative contentions. First, the City says that the preference clause itself, mandating as it does that "preference shall be given" to municipalities, places limits on the Secretary's discretion sufficient to say that the agency action is not so far committed to agency discretion that judicial review is barred. This argument, like so many in cases seeking to invoke Section 701, ignores the qualifying language found there: "to the extent that . . . agency action is committed to agency discretion by law." Looking for shackles

on discretion in the abstract is of no aid; rather, there must appear circumscription of discretion on the *particular issue* sought to be challenged. While the Secretary cannot, under the statutory mandate, sell power to a nonpreference customer over a preference customer, see *Arizona Power Pooling Assn. v. Morton*, *supra*, the statutory admonition does not address the question of whether the Secretary can, for example, sell *all* available power to one preference customer while refusing to sell *any* to another preference customer. Since on this particular issue 43 U.S.C. § 485h(e) does not speak, theoretically, judicial review of such a decision, no matter how arbitrary or capricious, is barred under the Administrative Procedure Act.

Looking beyond the confines of the Reclamation Laws, however, Santa Clara finds in Section 5 of the Flood Control Act of 1944, 16 U.S.C. § 825s, the following:

Electric power and energy generated at reservoir projects under the control of the Department of the Army and in the opinion of the Secretary of the Army not required in the operation of such projects shall be delivered to the Secretary of the Interior, who shall transmit and dispose of such power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles.

It is admitted by the City that the power generated from CVP is not statutorily controlled by the Flood Control Act. Rather, Santa Clara notes that the Department and the Bureau themselves, and their attorneys here, as a matter of departmental policy consider the provisions of that Act to be applicable to the marketing of CVP power.²² See

22. The Department's position in this regard is found in a letter from then Secretary Udall to Representative Aspinall dated May 15, 1965:

The provisions relating to power marketing and power rates in section 9(e) of the Reclamation Project Act of 1939 [43

Northern Calif. Power Agency v. Morton, 396 F.Supp. 1187, 1189 (D.D.C. 1975), aff'd per curiam without written opinion," 539 F.2d 243 (D.C.Cir. 1976) (assumed by the court to be the case.)

U.S.C. §485h(e)], section 5 of the Flood Control Act of 1944, and section 6 of the Bonneville Power Act are in pari materia, and each may be examined to shed light on the Congressional intent with respect to the others. Indeed, as a practical matter, as illustrated by the Bonneville Power Administration, because a single system may be used to market power from three different sources, the three statutes have to be read together and interpreted as establishing identical criteria for power rates. Consequently, the mandate of the Flood Control Act of 1944 to market power from Army projects "in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles" applies also to power marketed from reclamation projects under reclamation law.

See *Federal Reclamation and Related Laws Annotated*, Vol. I, at 649 (1972). See also 41 Opp. Atty. Gen. 236 (1955).

PG&E hastens to point out that this statement of Departmental policy, which is in the utility's view "unduly solicitous of Santa Clara's interests", see PG&E's Memo.Add.Pts. & Auth. in Support of Defendants' Motion for Summary Judgment, Doe.No.24, is merely an interpretation of the Reclamation Laws by the Department of the Interior, and, as such, is not binding on the Department or the court. *Wilbur v. United States*, 281 U.S. 206, 50 S.Ct. 320, 74 L.Ed. 809 (1930). PG&E attempts to show that Congress would not have wanted this aspect of the Flood Control Act to control the Interior Secretary's power marketing discretion under the Reclamation Laws, by noting that Flood Control Act power rate structures are subject to regulatory jurisdiction of the FPC, whereas Reclamation Act rates are not. Also, PG&E notes, under the Flood Control Act, the FPC is given standards to apply in regulating rates, whereas under the Reclamation Laws there is no such regulatory agency to oversee power sales; rather the Secretary of the Interior directly is given such standards and guide-lines. The statutory difference in administration of power rate-setting is without significance on the issue of how power should be marketed in the public interest. The rate structure guidelines in both statutes are designed to insure that the government recoups its investment and covers operating expenses, and in no sense does the presence of the FPC in one scheme give rise to an inference that discretion in formulating power marketing plans is to be greater or lesser in one statute or the other.

While the Department's interpretation of the interrelationship between the two Acts is not binding, it is the opinion of the court that at least as far as power marketing is concerned, Congress likely did intend that CVP power was to be disposed of "in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles." The court notes that the subject provisions of the Flood Control Act, drafted in language of general applicability to sales of public power, came just after the Reclamation Laws, and thus represent the most recent, but at the same time contemporaneous expression of Congressional desire concerning the marketing of public power. Of greater moment, there is no dearth of Congressional pronouncements that public projects funded by public money should inure to the benefit of the public as a whole to the greatest extent possible.²³ This is clearly the goal of the preference clauses found in a multitude of Congressional acts,²⁴ including, not insignificantly, that governing power sales from CVP. Public agencies and co-ops were to get first shot at the power generated by federal projects, a concept tracing back to public ownership of water resources and the power flowing therefrom.²⁵ Finally, as then Secretary

23. See, e. g. Cong.Rec.—Senate (Nov. 22, 1944) at 8323.

24. In addition to the present Reclamation Laws, the Bonneville Power Act, and the Flood Control Act, noted above, preference clauses appeared in the following: Reclamation Act of 1906, 34 Stat. 116; Raker Act of 1913, 38 Stat. 242; Federal Water Power Act of 1920, 41 Stat. 1063, 16 U.S.C. § 800; Salt River Project Act of 1922, 42 Stat. 847, 43 U.S.C. § 598; Boulder Canyon Project Act of 1928, 45 Stat. 1057, 43 U.S.C. § 617d(e); Tennessee Valley Authority Act of 1933, 48 Stat. 58, 16 U.S.C. § 831 et seq.; Rural Electrification Act of 1936, 49 Stat. 1363, 7 U.S.C. § 901 et seq.; Fort Peck Project Act of 1938, 52 Stat. 403, 16 U.S.C. § 833 et seq.

25. See *Preference to Public Bodies in the Marketing of Public Power*, Library of Congress, Legislative Reference Service, Jan 20, 1956.

Udall stated,²⁶ as a practical matter, because the Department may often find itself using a single system to market power from many sources, it would seem more convenient to the agency itself to operate under one set of standards, albeit imprecise, in the marketing of public power.

For these reasons, the court holds that the standards for power marketing set forth in Section 5 of the Flood Control Act of 1944—that the Secretary must dispose of power “in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles”—were intended to apply to the marketing of CVP power, and since such standards exist, there is law to apply regarding the allocation scheme here challenged. Thus, the court is not barred from judicially reviewing the allocation scheme by the provisions of 5 U.S.C. § 701(a)(2).

(b) *Congressional Approval of Power Marketing Scheme.*

Defendants' next line of defense which, if established, would bar judicial review of the Secretary's exercise of discretion, is that the specific marketing program at issue here, including its discriminatory impact on Santa Clara and others, received Congressional imprimatur by virtue of the enactment of various appropriations bills implementing construction of the Pacific power intertie.²⁷

The Department of the Interior in mid-1964 submitted to the House and Senate Appropriations Committees a

26. See footnote 22, *supra*.

27. See Section 8 of the Pacific Northwest Power Marketing Act, Public Law 88-552, 16 U.S.C. § 837g and Public Works Appropriation Act, 1965, 78 Stat. 682, regarding the construction of the intertie facility.

report²⁸ regarding negotiations with non-federal entities for construction of extra-high-voltage intertie lines linking the Pacific Northwest and the Pacific Southwest. The focus of the Report was upon the advisability of including non-federal entities in the intertie construction program, the various proposals received from the twelve utilities for intertie construction and the criteria used by the Department in evaluating them, the benefits to the United States and to preference customers associated with each proposal, and Departmental recommendations for Committee action. After receiving the original Report, California congressmen requested the Department to consider in addition three issues, one of which was the possibility of providing “for increases in Federal service to CVP preference agencies to provide for their load growth.”²⁹ This request resulted in an amendment to the proposal to increase the CVP bank account.³⁰

Defendants maintain that the Report as amended contained provision for limiting sales of non-withdrawable CVP power to those preference agencies then (i. e., in 1964) receiving project power, to the exclusion of preference entities that might request power in the future; that this provision was specifically approved by the Appropriations Committees; and that in enacting appropriations bills recommended by the Committees, Congress in effect ratified

28. The 53-page report, in evidence as Defendants' Exhibit 23, is entitled “Report to the Appropriations Committees of the Congress of the United States Recommending a Plan of Construction and Ownership of EHV Electric Interties Between the Pacific Northwest and the Pacific Southwest” (Committee Print, 1964).

29. See Amendatory Letter of July 17, 1964, to the Report, at pages 43-44. In addition the Department was requested to look into assuring Canadian treaty power for California water projects and providing for post-amortization benefits to the federal government and periodic review of certain subtransmission charges.

30. See Report at 45.

the allocation scheme limiting sales of nonwithdrawable power to the 1964 customers.

The court cannot agree. There are weak links in the argument, beginning with the Report and its amendment. The language is at best ambiguous on the specific issue of whether future preference customers could be included in CVP. The amendment, the only operative provision of which was to raise the ceiling on the CVP bank account by a certain estimated amount, states in pertinent part:

The request of the California Congressmen that the intertie plan be amended to provide load growth for CVP preference customers required that we first establish a reasonable target date. We selected 1980. If load growth could be assured for CVP municipal and cooperative customers until 1980, they would have ample time to make alternative arrangements for additional power supply when they can no longer get all their power from the Central Valley Federal System. Having selected 1980 as the target date, the Bureau of Reclamation in cooperation with its CVP customers estimated the amount by which the ceiling on the CVP bank account must be raised to meet interim load growth, and the amount of additional transmission capacity between CVP and the Northwest required to maintain the bank account at this higher level for a 40-year period. The Bureau determined that with anticipated diversity of peak loads between its customers, a system capability of 1,050 megawatts would enable it to serve projected customer loads of 1,080 megawatts in 1980. The 1,080 megawatts is related to load growth of only non-Federal customers now served by the Bureau of Reclamation, excluding SMUD and State agencies. To the extent additional public agencies or co-ops become CVP customers, the Bureau's ability to meet load growth of existing customers might be diminished.

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The amended proposal permits carrying preference-customer loads, as indicated earlier, to a total of 1,050 megawatts.

The report abounds with references to "preference customers" as a group, and the benefits and cost savings they would receive under the intertie proposal, with absolutely no specific reference to limiting the group to those entities receiving Bureau power in 1964³¹. Then existing agency loads and anticipated needs were used to estimate the amount by which the CVP bank account would need to be increased, and this increase in itself was the vehicle used to provide for load growth, but at no point does the above quoted language unequivocally state that only *those* customers' load growths are to be protected. It is arguable, in fact, that the language can be read to imply that it was anticipated that future preference customers would come on the power lines, and that, while an effort was made to protect load growths of existing customers, such protection would not be guaranteed.³²

It cannot be said with sufficient certainty that members of the Committees, if asked, would have agreed that their recommendation of the intertie construction as outlined in

31. See, e. g., Report at 21-22, 34-37, 39.

32. The amendment states: "To the extent additional public agencies or co-ops *become* CVP customers . . ." (Emphasis added). Such an interpretation of the Report language would be more consistent with the rest of the Report and with the preference clause of 43 U.S.C. § 485h(e) which says "preference shall be given to municipalities". Reading the Report amendment in the manner proposed by the Bureau and PG&E would border on finding that Congress impliedly repealed 43 U.S.C. § 485h(e) as to sales of CVP power after 1964, merely by passing the appropriations bills. "Repeals by implication are not favored . . . The intention of the legislature to repeal 'must be clear and manifest.'" *United States v. Borden Co.*, 308 U.S. 188, 60 S.Ct. 182, 84 L.Ed. 181 (1939). Such intention, if it existed here, is anything but "clear and manifest".

the Report amounted to a decision that only the Bureau's 1964 customers would be entitled to non-withdrawable CVP power.

This is not, however, the weakest link in the chain. There is no indication in the record, and defendants have certainly not established, that the Committees, having approved the proposals, did anything more than simply recommend to the Congress as a whole that an appropriation to initiate construction of transmission lines be made, "as recommended in the report of the Secretary of the Interior as amended." See S.Rept. No.1326, 88th Cong., 2d Sess. 37-38 (1964) and H.R.Rept.No.1794, 88th Cong., 2d Sess. 42 (1964). Knowledge of the precise cause of action alleged to have been acquiesced in is an essential prerequisite to a finding of ratification, cf. *United States v. Beebe*, 180 U.S. 343, 21 S.Ct. 371, 45 L.Ed. 563 (1901); *United States v. Georgia-Pacific Co.*, 421 F.2d 92 (9th Cir. 1970), and the record before the court does not support a finding of congressional knowledge of the exclusion of post-1964 preference customers from receiving non-withdrawable CVP power sufficient to equate passage of the appropriations bills with ratification of the exclusion.³³ See also *Arizona Power Pooling Assn. v. Morton*, supra; *Associated Electric Coop. Inc. v. Morton*, 165 U.S.App. D.C. 344, 507 F.2d 1167 (1974).

Having determined that there are no legal obstacles to review of the Secretary's actions with respect to Santa Clara, and that there is some, albeit imprecise, law to apply in the course of that review, the question remaining is

33. Moreover, the rules of each House of Congress expressly provide that appropriation bills are not to include general legislation. Rule XVI, para. 2, 4, Standing Rules of the Senate, Rules and Manual, United States Senate, 84th Cong. (1955); Rule XXI, par. 2, Rules of the House of Representatives, Rules and Manual, House of Representatives, 84th Cong. (1955).

whether those actions were and are "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law." 5 U.S.C. § 706(2)(A). The precise question is whether the Secretary has acted consistently with his mandate to dispose of CVP power "in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles." If it is Santa Clara's position that this directive precludes any sort of discrimination among preference customers, it is, of course, not well taken. Nor can Santa Clara legitimately claim an "automatic entitlement" to CVP power simply by virtue of its status as preference customer. *Arizona Power Pooling Assn. v. Morton*, 527 F.2d 721, 730 (9th Cir. 1975). The most that Santa Clara can claim is a reasonable "opportunity to compete" on equal terms with other preference customers for CVP power. *Id.* Rather, the City's argument must be that the Secretary's refusal to offer it CVP power on a non-withdrawable basis is an arbitrary exercise of the substantial discretion inherent in determining what allocations and types of allocations (1) "would encourage the most widespread use" of CVP power, (2) would provide "the lowest possible rates to consumers", and (3) would be "consistent with sound business principles".

The Bureau's stated justification for excluding Santa Clara from a non-withdrawable allocation of CVP power is inadequate. That justification goes no further than merely to assert that only those Bureau customers who were such in 1964 are entitled to non-withdrawable allocations, and those who applied thereafter are not.³⁴ As the court has

34. It appears that even the stated justification may not have been strictly adhered to by the Bureau. As Santa Clara has repeatedly and heatedly pointed out, there are at least two instances in

previously held, it does not sufficiently appear to have been the intent of Congress to set the 1964 cut-off date, so as to allow the Bureau's allocation scheme to stand on that ground alone.

The court is not prepared at this time, however, to judge whether or not the allocation scheme as a whole, or Santa Clara's treatment thereunder, is arbitrary or irrational or not in compliance with the marketing standards set forth above. Such a decision can be made much more intelligently, if judicial resolution is then necessary, after the Department on remand has had the opportunity to formulate standards and guidelines for the allocation of CVP power, after hearing from interested parties (as required by the court's

which the Bureau has provided non-withdrawable allocations for preference entities who were not customers in 1964.

As an example, Santa Clara alleges that the City of Biggs received an allocation of long-term, non-withdrawable power a month after Santa Clara's July, 1974 request for an immediate allocation of power, which was granted on a withdrawable basis only. See Plaintiff's Exhibit 10. There is no specific proof in the record regarding the Bureau's treatment of Biggs, except for the fact that Biggs first received CVP power sometime in 1967. See Defendants' Submission of CVP Data, Doe.No. 23 (# 294). The Bureau seems to concede the point, for it argues that the allocation to Biggs is justifiable on the grounds of the small size of the allocation (a maximum of 2,440 kilowatts in 1975). The court expresses no viewpoint on the legitimacy or rationality of this justification.

As a further example, the City points to Westlands Water District, which received a long-term allocation of CVP power on December 1, 1966, by contract with the Bureau (in evidence as Plaintiff's Exhibit 23). The contract provided for an immediate contract rate of delivery of only 250 kilowatts, but with provision for the District to take up to 50,000 kilowatts on request, and with further provision for the contract rate of delivery to be set at 50,000 kilowatts as of 1977. The Bureau has extended the reservation date from 1977 to 1980. See Contract Amendment 1, page 2, Plaintiff's Exhibit 23. See also Defendants' Submission of CVP data, Doe.No.23 (# 290) establishing that Westlands first received CVP power in 1966 (117 kilowatts). The defendants have offered no justification for the treatment of Westlands. The court expresses no viewpoint on the rationality of this treatment.

holding in Part II.D., *infra*) according to published procedures (as required by the court's holding in Part II.C.(2), *infra*). Once this is accomplished a detailed record will exist containing all relevant empirical data and facts, competing technical arguments, reasoned analyses of each scheme suggested and, most importantly, specific reasons supporting the eventual choice of one allocation scheme over all others. This procedure allows, in fact insures, that the special expertise of the agency concerned and of other interested groups will be fully brought to bear on this problem of great technical complexity. Only on viewing such a record could the court make a reasoned decision as to whether the plan adopted complies with the law.

The court wishes to stress that no finding is made here as to the legal validity or invalidity of the Bureau's existing scheme for the allocation of CVP power. It is entirely possible that the present scheme fully comports with the statutory mandate, insofar as its effects are concerned. The only finding at this point is that the procedures employed in formulating the allocation plan and the reasons given in support thereof are legally inadequate. See Parts II.C.(2) and II.(D.) *infra*.

Similarly, the court also declines to consider whether Santa Clara's Fifth Amendment equal protection rights have been violated. The legal test which would be used in such an analysis—whether a rational basis exists for the classification in which Santa Clara finds itself—would require the same sort of inquiry as that needed to decide whether the present allocation plan satisfies the statutory power marketing standards. It would be necessary to investigate whether the means chosen (the particular treatment given some preference customers in favor of others) sub-

stantially further the legislative goal (the disposition of CVP power in accordance with the standards set forth in the Flood Control Act). Again, such an investigation best awaits the making of a detailed record containing a well-articulated basis for the final allocation scheme chosen, which can then, if a dispute arises, be measured against the demands of equal protection.

C. Violation of Administrative Procedure Act, 5 U.S.C. § 551 et seq.

Santa Clara maintains that the Administrative Procedure Act requires defendants to promulgate rules or regulations, according to established procedures, governing decision making in the realm of dispositions of CVP power. Defendants concede that no such rules have been published or regulations promulgated, but contend that the APA places no such requirements on them to do so.

(1) Rule Making—Section 553.

If Santa Clara is relying on this provision of the APA, as it seems, then that reliance is misplaced. This section does govern administrative rule making, providing for published notice of hearing inviting interested parties to submit their views, and for agency decision after consideration of such input, but it expressly excepts from its operation matters relating to public property, 5 U.S.C. § 553(a)(2), into which category falls federal hydroelectric power. See, e.g., *Assoc. Elec. Coop. Inc. v. Morton*, 165 U.S. App.D.C. 344, 507 F2d 1167, 1177-78 (1974); *Northern California Power Agency v. Morton*, 396 F.Supp. 1187, 1191 n. 6 (D.D.C. 1975), aff'd per curiam without written opinion, 539 F.2d 243, No. 75-1572 (D.C. Cir., 1976).

(2) Public Information; Agency Rules, Opinions, Orders, Records, and Proceedings—Section 552.

The APA, 5 U.S.C. § 552(a)(1) requires "each agency" to publish in the *Federal Register* for the guidance of the public:

(B) statements of the general course and method by which its functions are channeled and determined . . . [and]

(C) rules of procedure . . .

The Bureau did not publish any such description of the procedures followed in making power allocations to preference customers at any point in time, either initially, or as capacity was added to the Project. The statute clearly provides that no administrative action taken pursuant to unpublished procedures can be allowed to stand against a person adversely affected thereby. 5 U.S.C. § 552(a)(1).

W. G. Cosby Transfer & Storage Co. v. Froehlke, 480 F.2d 498 (4th Cir. 1973); *Northern California Power Agency v. Morton*, supra, 396 F.Supp. at 1191. The federal defendants seek, however, to invoke the statutory exception which applies when "actual and timely notice" of the terms of the procedures to be followed are given.³⁵ See *Kessler v. FCC*, 117 U.S.App.D.C. 130, 326 F.2d 673 (1963). The few CVP customers, says the Bureau, are best kept informed of Bureau procedures and anticipated actions through the frequent contacts the Bureau has with each customer, rather than through the medium of the *Federal Register*.

This may well be so, but the issue is not whether the Bureau had the opportunity to inform interested parties of

35. 5 U.S.C. § 552(a)(1) states, in pertinent part: Except to the extent that a person has actual and timely notice of the terms thereof, a person may not in any manner be required to resort to, or be adversely affected by, a matter required to be published in the *Federal Register* and not so published.

procedures to be followed in setting CVP power allocations; rather, the issue is whether the Bureau availed itself of this opportunity. From all that appears on the record, the allocations were made by the Bureau on an *ad hoc* basis more or less unilaterally, without specific opportunity for interested parties to express their views. While Santa Clara was notified at various times when additional CVP power became available,³⁶ and was informed that an allocation process would be adopted if applications exceeded available power,³⁷ no procedures were specified by the Bureau for receiving input regarding how allocations would be made. Santa Clara was merely repeatedly told that its application for an allocation of non-withdrawable power would receive due consideration.³⁸ In February of 1972, Santa Clara was finally told that the method of allocation was broadly discretionary, that the law does not require all preference customers to be treated on the same basis, and that Santa Clara was at least more fortunate than applicants who had received no power at all.³⁹ The court holds that it was incumbent on the Bureau reasonably to inform those to be affected by power allocation decisions of the procedures employed in making those decisions. In a case involving the procedures for setting a rate-hike for CVP power, it was said:

Where "timely" notice of "rules of procedure" is required, the statute cannot be satisfied by actual notice of the Department's improvised decisions as each new problem arises. What is contemplated is a reasonably

36. See Plaintiff's Exhibits 1-7.

37. See attachment to Plaintiff's Exhibit 3, entitled "Power Marketing Criteria", Bureau of Reclamation, January 2, 1962, at par. V.

38. Plaintiff's Exhibits 9, 11, and 21.

39. Plaintiff's Exhibit 22.

complete code of procedures set out in advance by which actions can be guided, and strategies planned. This simply was not provided.

Northern California Power Agency v. Morton, *supra*, 396 F.Supp. at 1191. The statutory exemption cannot apply where, as here, such procedures as were followed were incompletely and imprecisely delineated and communicated haphazardly, if at all, to affected parties. As a result of the court's holding here, and in Part II.D, *infra*, it will be necessary for the Bureau to publish, or disseminate so as to provide actual notice to all interested parties, specific rules of procedure to be followed regarding proceedings to determine the types and amounts of allocations of CVP power among preference customers. See *Gonzalez v. Freeman*, 118 U.S.App.D.C. 180, 334 F.2d 570, 578-80 (1964) (Burger, J.); see also *W. G. Cosby Transfer & Storage Corp. v. Froehlke*, 480 F.2d 498, 503 (4th Cir. 1973).

D. Denial of Due Process.

The absence of standards or guidelines for allocating CVP power among preference customers and the lack of opportunity for interested parties to participate in the process by which the allocation decisions are made, spell out, in Santa Clara's view, a denial of procedural due process.

(1) Interest Entitled to Protection?

To reach these claims, it must be shown that an invasion of some legally protected right has occurred. *Joint Anti-Fascist Refugee Comm. v. McGrath*, 341 U.S. 123, 71 S.Ct. 624, 95 L.Ed. 817 (1951); *Board of Regents v. Roth*, 408 U.S. 564, 92 S.Ct. 2701, 33 L.Ed.2d 548 (1972). At this late date, it cannot be said that a "right" exists to do business

with the government. *Perkins v. Lukens Steel Co.*, 310 U.S. 113, 60 S.Ct. 869, 84 L.Ed. 1108 (1940). What kind of "property right", if any, does the governing federal statute⁴⁰ confer? See *Bishop v. Wood*, U.S. 96 S.Ct. 2074, 48 L.Ed.2d 684 (1976); *Board of Regents v. Roth*, supra, 408 U.S. at 577, 92 S.Ct. 2701. That Santa Clara is a municipality statutorily entitled to "preference" in the sale of CVP power is unavailing, say the defendants; preference customers have no "automatic entitlement" to CVP power. *Arizona Power Pooling Assn. v. Morton*, 527 F.2d 721, 730 (9th Cir. 1975). But lacking "automatic entitlement" is not equivalent to lacking any "right" whatsoever in the subject property, federal power. Certainly Congress did not grant to Santa Clara a present ownership interest in CVP power. But this recognition cannot end our inquiry, for property interests protected by procedural due process extend "well beyond" actual ownership of a commodity. *Board of Regents v. Roth*, supra 408 U.S. at 571-72, 92 S.Ct. 2701.

To have a property interest in a benefit, a person clearly must have more than an abstract need or desire for it. He must have more than a unilateral expectation of it. He must, instead, have a legitimate claim of entitlement to it.

* * * * *

[Property interests] are created and their dimensions are defined by existing rules or understandings that

40. The federal reclamation laws provide the "property right", if such exists. We do not look to the contract entered into by Santa Clara with the Bureau, which admittedly limits Santa Clara's rights to *withdrawable* power, because the issue here is the validity of the procedures used by the Bureau to determine that Santa Clara was to have a contract for withdrawable power only. And it cannot realistically be said that by entering into the contract, which was all the City could get, it waived its right to such procedural due process as the reclamation laws might afford.

stem from an independent source. . . . —rules or understandings that secure certain benefits and that support claims of entitlement to those benefits.

Id. at 577, 92 S.Ct. at 2709. Where Santa Clara before us as just another potential customer of Bureau power, unclothed of any Congressional recognition of special privilege in the fight for power, we would have to conclude that the City's interest did indeed go no further than an "abstract need or desire" or "unilateral expectation". But the fact that Congress has seen fit to distinguish municipalities from non-public potential customers of CVP power lends a certain legitimacy to Santa Clara's claim of entitlement.⁴¹ Granted, the "dimensions" of this property interest are statutorily restricted to "preferential" consideration therefor; nevertheless, a restriction on a property right does not eviscerate its status as a right. The preferential treatment Congress has afforded public entities clearly raises the probability that such a customer will receive power over and above that of other customers. The long history of the various laws directing the disposition of public power first to the public, attests to the existence of some claim of entitlement for public agencies.⁴² Accordingly, the court holds that a sufficient statutory property interest exists to call forth some degree of due process protection.⁴³

41. See also *Goldsmith v. Board of Tax Appeals*, 270 U.S. 117, 46 S.Ct. 215, 70 L.Ed. 494 (1926).

42. See notes 24 and 25 and accompanying text. See also House Report on H.R. 7642, 75th Cong., 1st Sess., Rep. No. 1090, at 2-3.

43. In *Northern California Power Agency v. Morton*, 396 F. Supp. 1187 (D.D.C. 1975), aff'd per curiam without written opinion, 539 F.2d 243, No. 75-1572 (D.C.Cir., 1976), while the Bureau there conceded that CVP preference customers have a statutory interest entitled to some degree of due process protection—and thus the issue was not specifically decided—the court did not question the validity of the concession, and in fact supplied its own citation

(2) *What Process is Due?*

“[T]he very nature of due process negates any concept of inflexible procedures universally applicable to every imaginable situation.” *Goss v. Lopez*, 419 U.S. 565, 577-78, 95 S.Ct. 729, 738, 42 L.Ed.2d 725 (1975). What procedures are required must reflect a careful balance between, on one scale, the nature of the right affected and the consequences to the right-holder of its loss, and on the other, the administrative burden imposed on the agency. *Pence v. Kleppe*, 529 F.2d 135, 142 (9th Cir. 1976), citing *Goldberg v. Kelly*, *supra*. The objective is to ensure that the agency will acquire the information it should have in a manner fairly calculated to illuminate the issues for reasoned decision making. *Northern California Power Agency v. Morton*, *supra*, 396 F.Supp. at 1192-93.

Procedural due process has a function beyond that of encouraging enlightened, informed administrative decisions. Courts have with increasing frequency recognized that due process means that administrators must do what they can to structure and confine their discretionary powers through safeguards, standards, principles and rules.

Judicial review must operate to ensure that the administrative process itself will confine and control the exercise of discretion. Courts should require administrative officers to articulate the standards and principles that govern their discretionary decisions in as much detail as possible. Rules and regulations should be freely formulated by administrators, and revised when necessary. Discretionary decisions should more

therefor, *Goldberg v. Kelly*, 397 U.S. 254, 90 S.Ct. 1011, 25 L.Ed.2d 287 (1970) (statutory interest in welfare benefits sufficient to invoke due process protection); *Thompson v. Washington*, 162 U.S. App.D.C. 39, 497 F.2d 626 (1973) (statutory interest in low-rent housing sufficient to invoke due process protection against rental increase).

often be supported with findings of fact and reasoned opinions. When administrators provide a framework for principled decision-making, the result will be to diminish the importance of judicial review by enhancing the integrity of the administrative process, and to improve the quality of judicial review in those cases where judicial review is sought.

Environmental Defense Fund, Inc. v. Ruckelshaus, 142 U.S. App.D.C. 74, 439 F.2d 584, 598 (1971) (Bazelon, C. J.).⁴⁴ It is all the more imperative that courts require administrators to articulate the standards that guide their discretion where, in cases such as the one at bar, the court lacks the scientific expertise that would permit meaningful review. If administrators themselves will “provide a framework for principled decision-making”, a court can properly confine itself to review of the framework, where it has competence, rather than the merits of the decision, where it is often scientifically unequipped to cope. This is such a case, and such requirements must be imposed here.

44. See also *Silva v. Secretary of Labor*, 518 F.2d 301, 311 (1st Cir. 1975); *United States v. Barbera*, 514 F.2d 294, 302-04 (2d Cir. 1975); *Morales v. Schmidt*, 489 F.2d 1335, 1348-49 (7th Cir. 1973) (Stevens, J., dissenting), rehearing en banc, 494 F.2d 85, 87-88 (7th Cir. 1974); *Mobil Oil Corp. v. FPC*, 157 U.S.App.D.C. 235, 483 F.2d 1238 (1973); *United States v. Bryant*, 142 U.S.App.D.C. 132, 439 F.2d 642, 652, n. 22 (1971); *Soglin v. Kauffman*, 418 F.2d 163, 168 (7th Cir. 1968); *Holmes v. New York City Housing Auth.*, 398 F.2d 262, 265 (2d Cir. 1968); *Gonzalez v. Freeman*, 118 U.S. App.D.C. 180, 334 F.2d 570, 578 (1964); *Hornsby v. Allen*, 326 F.2d 605, 609-10 (5th Cir. 1964); *Northern California Power Agency v. Morton*, 396 F.Supp. 1187, 1194 (D.V.C. 1975); *Harnett v. Board of Zoning, Subdivision and Building Appeals*, 350 F. Supp. 1159, 1161 (D.C.I. 1972); *Smith v. Ladner*, 288 F.Supp. 66, 70, 71 (S.D. Miss. 1968).

Professor Davis is in full accord with this approach, and in fact, is probably its source. See Davis, *Administrative Law Treatise*, 1976 Supp., Sections 2.00 through 2.00-6.6.13, and 1970 Supp., same sections. See also Leventhal, “Principled Fairness and Regulatory Urgency”, 25 Case W.R.Law Rev. 66, 70 (1974).

Since the Bureau's present CVP power allocation scheme might well fully comply with the statutory mandate "to dispose of such power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles",⁴⁵ and to sell such power only if to do so would not "impair the efficiency of the project for irrigation purposes" (43 U.S.C. § 485h(c)), procedural due process in this context should not and does not demand that the existing scheme be scrapped immediately and an entirely new scheme be developed. That scheme may be used as a starting point in a sequence of steps that must be taken by the Department and the Bureau to assure that due process is satisfied. These steps are as follows: (1) After re-evaluation of the present scheme in light of the legal conclusions herein expressed, the Department and the Bureau should (a) arrive at a decision, to be considered at that point tentative, as to what the allocation scheme should be (it may in fact be the present scheme if, after due consideration, the Bureau believes it to comply with the statute), and (b) state, in detail sufficient to permit those affected to make a meaningful response, the standards and guidelines used to guide discretion in setting the types and amounts of allocations of CVP power among preference customers, to include (i) the underlying facts, empirical data, and assumptions relied upon, and (ii) detailed rationale for the scheme tentatively chosen, all with an eye toward explain-

45. Since it has been the Department's position that these standards from the Flood Control Act govern its sales of CVP power, see note 22 and accompanying text, *supra*, if we assume that the Department has exercised its discretion consistently with its stated position, it might even be said to be *likely* that the present scheme reaches the "correct result" as far as the statute is concerned. We hold only that the procedures used to arrive at that "result" were defective as measured against the demands of due process.

ing to all concerned precisely how the chosen scheme fulfills the statutory commands; (2) publish these standards, guidelines, and reasoning, or otherwise give actual notice thereof to all concerned; (3) afford reasonable opportunity for all interested parties to submit written comments on the scheme tentatively chosen; (4) hold a public hearing during which parties may supplement their written comments with on-the-record questioning of Department and Bureau experts and others whose facts, data, or conclusions influenced the choice of the tentative scheme; and (5) after consideration of all input from interested parties, make a final determination of the allocation scheme to be employed, setting forth specific findings with respect to the various comments received and the reasoning which led to the final conclusion. For purposes of later judicial review, if necessary, an identifiable record must be created. Any regulations needed to implement the above requirements should be promulgated. See 43 U.S.C. § 1201.

(3) *Relief.*

The court believes it would operate against the public interest to strike down the entire allocation scheme under which CVP power is now distributed to preference customers, and, in the exercise of its equitable discretion in fashioning the appropriate relief, declines to do so. Rather, the existing scheme is to remain in full force and effect pending the outcome of the agency's formulation of standards and guidelines for allocation of CVP power and re-evaluation of its present scheme in light of the legal conclusions here expressed and after opportunity for party input as directed above. This procedure allows the agency the chance in the first instance to remedy the due process defects which exist. See Leventhal, "Environmental Deci-

sionmaking and the Role of the Courts", 122 U.Pa.L. Rev. 509, 539 (1974). The consequence of this holding is, of course, that the court declines to declare illegal the withdrawals of power from Santa Clara beginning in 1971, as the City requests, or to order the Bureau to grant Santa Clara a long-term, non-withdrawable allocation of CVP power. As the court has noted, it might be that the Bureau's existing scheme complies in fact with the applicable CVP power distribution standards, notwithstanding that it was devised in the absence of required procedural safeguards, and for the court to upset the status quo at this time would constitute at best a premature, and at worst an unjustified, interruption of CVP power distribution, affecting thousands of consumers.

(4) PG&E's Counterclaim.

This disposition requires that PG&E's motion for summary judgment on its counterclaim against Santa Clara be denied. PG&E's claim against the City arises out of a contract executed in March, 1969, whereunder PG&E would supply the City's excess power requirements at wholesale rates at such times as Santa Clara's share of CVP power, as set by the Bureau, did not meet the City's total requirements.⁴⁶ As the Bureau began withdrawing power from Santa Clara in mid-1971, the share of the City's total requirements which had to be supplied by PG&E increased, and the utility billed the City for the difference.⁴⁷ Rather than remitting the amounts due, Santa Clara deposited them in escrow every month upon receiving PG&E's bill, pursuant to an arrangement with the utility

46. See Exhibit I to PG&E's Motion for Summary Judgment, Doc.No.49.

47. See Attachment to Santa Clara's Motion for Summary Judgment on the Due Process Issues, Doe.No.39.

undertaken so as to preserve any rights the City might have against the federal government.⁴⁸ It was the City's position throughout, of course, that the Bureau's stated power withdrawals were illegal and therefore without effect, that the power received by the City to meet its total requirements was thus, in fact, CVP power, coming in over PG&E transmission lines, and that the money in the escrow fund was not owing to PG&E but rather to the federal government,⁴⁹ since it was federal power Santa Clara had been purchasing the whole time.

Given the court's holding, the funds will have to remain in escrow until such time as the Bureau determines, under the procedures prescribed above (Part II.D.(2)), what Santa Clara's allocation during the withdrawal period *would* have been had it been determined in accordance with the requirements of due process. If the existing scheme survives, PG&E will be entitled to the fund. On the other hand, if a different allocation scheme is adopted, it will be necessary to adjust the parties' rights to the fund in accordance with that scheme.⁵⁰

48. See Exhibit II to PG&E's Motion for Summary Judgment, Doc.No.49.

49. In actuality, according to Santa Clara's argument, only part of the escrow fund would be owing to the Bureau, since amounts deposited were at PG&E's rates for power, whereas CVP power was substantially less expensive. Were Santa Clara to prevail in its argument that the Bureau's withdrawals were illegal, the City would receive the amount left in the fund after paying off the Bureau, since PG&E would have supplied no power.

50. This will necessitate an estimate, under the newly-adopted scheme, of what amount of power Santa Clara would have been receiving from CVP in mid-1971 and subsequent months. Assuming that under any scheme adopted which differs from the present one, Santa Clara would have received more power in 1971 and thereafter than it did under the existing scheme, then PG&E's share of the fund will be reduced and will be the power rate charged for the City's total requirements minus the CVP power which *would have been received* had the new plan been in effect, rather than the total fund amount as it now stands.

E. Violation of National Environmental Policy Act.

Santa Clara finally alleges that defendants' actions in (1) withdrawing CVP power from the City, beginning in 1971, and (2) determining not to grant the City a long-term, non-withdrawable allocation of CVP power, are within the category of government actions for which an environmental impact statement (EIS) is required by NEPA, specifically Section 102(2)(C) thereof, 42 U.S.C. § 4332(2)(C), and that no such statement has been prepared. This section provides, in part:

The Congress authorizes and directs that, to the fullest extent possible: . . .

(2) all agencies of the Federal Government shall * * *

(C) include in every recommendation or report on proposals for legislation and other major Federal actions significantly affecting the quality of the human environment, a detailed statement by the responsible official on—

- (i) the environmental impact of the proposed action,
- (ii) any adverse environmental effects which cannot be avoided should the proposal be implemented,
- (iii) alternatives to the proposed action,
- (iv) the relationship between local short-term uses of man's environment and the maintenance and enhancement of long-term productivity, and
- (v) any irreversible and irretrievable commitments of resources which would be involved in the proposed action should it be implemented.

The City contends that the government's action in withdrawing power and in refusing to grant a long-term alloca-

tion are "major federal actions" which "significantly affect the quality of the human environment" in that if Santa Clara cannot get low-cost CVP power, it will have to install its own generating facilities or seek power from other suppliers with finite generating resources, either of which will adversely affect the environment, and further that the loss of low-cost federal power will increase power and energy rates to its customers, leaving "diminished resources for Santa Clara to maintain essential services and a pleasing and healthful cultural and physical environment within which to work and prosper". Defendants see NEPA inapplicable as a matter of law.

Ours is a task of construing the statutory language. For the reasons set forth below, the court is of the opinion that the government's actions here were not "major federal actions significantly affecting the quality of the human environment". Hence NEPA, and its requirement of an EIS, are not applicable to the Bureau's actions.

The federal action here consisted of adopting a plan to disseminate limited low-cost federal power, which plan did not leave Santa Clara with as much power as it wanted, or as much as some other municipalities received. The responsible officials decided that their actions in providing only partially for Santa Clara's total power needs fell without the purview of NEPA. Under the law this decision is to be measured against a standard of reasonableness. *Sare Our Ten Acres v. Kregar*, 472 F.2d 463, 467 (5th Cir. 1973).⁵¹

51. Use of this standard will give plaintiff the benefit of the doubt as to what the law really is. Views of courts as to the standard of review of this threshold determination have varied widely. See, e. g., *Hanly v. Kleindienst*, 471 F.2d 823 (2d Cir. 1972) ("arbitrary, capricious"); *Scherr v. Volpe*, 336 F.Supp. 886 (W.D.Wis. 1971), aff'd, 466 F.2d 1027 (7th Cir. 1972) (de novo review); *Goose Hollow Foothills League v. Romney*, 334 F.Supp. 877 (D.Or. 1971) ("arbitrary, capricious"); *Echo Park Residents Comm. v. Romney*, 2 Env.L.Rep. 20337 (C.D.Cal. 1971) (arbitrary).

It cannot be denied that if Santa Clara's power needs are not satisfied by the federal government, the City will have to look elsewhere for power if it intends to continue serving its citizens. Much the same can be said of every city in the United States. It is equally undeniable that as more and more power is needed by the nation, generating facilities of some type, be they nuclear, thermal, or hydroelectric, will have to be constructed, and the presence of such installations will undoubtedly significantly affect the environment. What is not so clear, however, is that the government's allocating a finite quantity of power to one city or a group of cities, instead of to another, significantly affects the quality of the human environment, within the intendment of the NEPA provisions. This is not a case where a power plant is proposed for construction, or even a case where it is proposed to increase the capacity of an existing plant. Nothing was built, dammed, re-routed, or torn down. Electric power was simply ordered sent through some existing power lines and not others.

The effect of the government's not supplying Santa Clara with its full power needs will be felt by the environment in some manner. That cannot be disputed. Assume the worst of several possibilities: that Santa Clara presently undertakes to build a power plant. Such an action, were it federal, would require an EIS. But the government's "non-action" in not supplying power to the City is not tantamount to building a power plant. Can it realistically be said that an EIS is required every time the federal government decides *not* to build a nuclear power plant at a certain location? Surely the intendment of Congress in enacting NEPA was precisely the opposite. NEPA was designed to force decision-makers to consider the environmental impact every time an environment-changing decision is made. The governmental decision here did not and does not change the

environment any more than it would change without the government action.

[I]n deciding whether a major federal action will "significantly" affect the quality of the human environment, the agency in charge, although vested with broad discretion, should normally be required to review the proposed action in the light of at least two relevant factors: (1) the extent to which the action will cause adverse environmental effects in *excess* of those created by existing uses in the area affected by it, and (2) the absolute quantitative adverse environmental effects of the action itself, including the cumulative harm that results from its contribution to existing adverse conditions or uses in the affected area.

Hanly v. Kleindienst, 471 F.2d 823, 830-31 (2d Cir. 1972) (emphasis added). Since the demand for CVP power exceeds the available supply, if the full demand must be met, which it apparently must, then the steps taken to meet that demand might well affect the environment. But those steps are not being taken here by the federal government. *Its* actions in giving out what power it has available do not affect the environment; what affects the environment is that more power than the federal government has is needed, and will have to be sought by others. *Those* actions may affect the environment, but they are not the subject of this complaint. The court holds that there has been no violation of NEPA.

III. Conclusion

For the foregoing reasons, defendants' motion for summary judgment on the due process issues, plaintiff's motion for summary judgment on the due process issues, and PG&E's motion for summary judgment on its counterclaim

must all be denied. Defendants' motion for summary judgment on the NEPA issue is granted.

In addition, given the nature of the disposition of this case, remanding the power allocation scheme issue to the Department of the Interior, the court at this time dismisses the action in its entirety (with exception of the NEPA issue) without prejudice, in the expectation that once the Department complies with the procedural safeguards prescribed above, continued controversy may well not exist.

Appendix D

City of Santa Clara, California,

Plaintiff,

v.

Thomas Kleppe, Individually and as Secretary of the Interior, and Gilbert Stann, Individually and as Commissioner of the Bureau of Reclamation, United States Department of the Interior,
Defendants.

No. C-75-1574 SC.

United States District Court,
N. D. California.

Nov. 12, 1976.

Edwin J. Moore, City Atty., Santa Clara, Cal., for plaintiff.

ORDER AND MODIFICATION OF JUDGMENT
CONTI, District Judge.

This matter is before the court on intervenor-defendant Pacific Gas & Electric Company's (PG&E) motion for reconsideration of a portion of this court's judgment entered on September 20, 1976. The portion in question reflects this court's ruling in Part II.D.(4) of its Decision in this case filed on July 23, 1976. The court denied PG&E's motion for summary judgment on its counterclaim against Santa Clara and ordered that the escrow agreement which was the subject of the counterclaim be continued in effect until such time as the Bureau of Reclamation reconsidered the power allocation scheme in issue in the suit.

PG&E's counterclaim against Santa Clara arose out of a contract executed in March, 1969, under which PG&E agreed to supply the City's excess power requirements at wholesale rates at such times as Santa Clara's share of Central Valley Project (CVP) power, as set by the Bureau of Reclamation,

did not meet the City's total power requirements. As the Bureau began withdrawing power from Santa Clara in mid-1971, the share of the City's total requirements which had to be supplied by PG&E increased, and the utility billed the City for the difference. Rather than remitting the amounts due, Santa Clara deposited them in escrow every month upon receiving PG&E's bill, pursuant to an arrangement with the utility undertaken so as to preserve any rights the City might have against the federal government. It has been the City's position throughout this litigation that the Bureau's power withdrawals are illegal and therefore without effect, that the power received by the City to meet its total requirements is, in fact, CVP power, coming in over PG&E transmission lines, and that the money in the escrow fund is not owing to PG&E but, rather, to the federal government, since it is federal power which Santa Clara has been purchasing all along.

The court's Decision of July 23, 1976, has had the effect of perpetuating the escrow fund. Santa Clara continues to remit into the account an amount equal to its monthly bill from PG&E for its excess power requirements. As a result, the escrow account as of August, 1976, contained approximately \$28,000,000.00 (PG&E's Supplemental Exhibit, filed October 1, 1976).

PG&E now moves that the entire amount contained in the escrow account be disbursed to it, and that future payments by Santa Clara earmarked for the account be paid directly to it. In the alternative, PG&E moves that a portion of the escrow account in an amount equal to the CVP price plus interest be disbursed to it and that future payments into the account be reduced by an amount equal to the CVP price, this amount to be paid directly to the utility. PG&E suggests that an amount equivalent to the CVP price is the

"irreducible minimum" to which it will be entitled regardless of any potential re-allocation of power by the Bureau of Reclamation.

A. *Jurisdiction over PG&E's Counterclaim.*

Preliminarily, Santa Clara contests PG&E's motion for reconsideration on the ground that this court lacks jurisdiction over PG&E's counterclaim regarding the escrow agreement. Santa Clara bases this contention on the theory that PG&E is a pendent party to this litigation and that as such this court lacks an independent basis of jurisdiction over it. Santa Clara relies on the recent Supreme Court case of *Aldinger v. Howard*, 427 U.S. 1, 96 S.Ct. 2413, 49 L.Ed.2d 276 (1976). The *Aldinger* case holds that in actions brought pursuant to 42 U.S.C. § 1983 a plaintiff may not implead as a defendant a party against whom only a state-law claim is asserted and over whom no independent basis of federal jurisdiction exists. The fact that a state-law claim derives from the same nucleus of operative fact as a federal claim does not in itself confer federal jurisdiction over the party against whom the state-law claim is asserted.

The *Aldinger* case is not applicable here. PG&E sought to intervene as a defendant in this action pursuant, in part, to Rule 24(a)(2) F.R.C.P. This rule provides that an applicant may intervene in an action as a matter of right when he claims an interest relating to the property or transaction in question and is so situated that disposition of the action may as a practical matter impair his ability to protect that interest. This court permitted intervention, but did not specifically rule that it was proper under Rule 24(a)(2) F.R.C.P. The court now so rules.

By voluntarily intervening in this action under Rule 24, F.R.C.P., PG&E has submitted to the personal jurisdiction of this court. Further, by intervening as a matter of right,

PG&E has become a party defendant to Santa Clara's original claim against the Bureau of Reclamation. It is undisputed that this court has subject matter jurisdiction over this claim. In addition, this court has ancillary jurisdiction over any counterclaim asserted by PG&E against Santa Clara which arises out of the same transaction or occurrence as Santa Clara's original claim. See *United States to Use of Foster Wheeler Corp. v. American Surety Co.*, 25 F.Supp. 700 (E.D.N.Y. 1938), *aff'd* 142 F.2d 726 (2d Cir. 1944); *Moore v. New York Cotton Exchange*, 270 U.S. 593, 46 S.Ct. 367, 70 L.Ed. 750 (1926); 3B *Moore's Federal Practice*, ¶ 24.17[3-1]; *Shapiro, Some Thoughts on Intervention Before Courts, Agencies and Arbitrators*, 81 Harv. L.Rev. 721, 724 (1968). This court rules that PG&E's counterclaim against Santa Clara arises out of the same transaction or occurrence which is the subject of Santa Clara's claim against the Bureau, and further, that this court has ancillary jurisdiction over the counterclaim. The court also notes that the federal forum is the only forum wherein all of the claims of the parties arising from the Bureau's power allocation scheme may be litigated together. This is a factor to be considered in determining whether jurisdiction exists. See *Aldinger v. Howard*, *supra* at 16, 96 S.Ct. at 2421.

B. The Escrow Account.

PG&E sets forth three arguments in support of its motion for reconsideration: (1) that PG&E has performed all of its contractual obligations to supply Santa Clara with power; (2) that a retroactive re-allocation of CVP power by the Bureau of Reclamation is legally impossible; and (3) that there is no need to continue the escrow fund to preserve the rights of the parties. Santa Clara attempts to rebut these arguments, and urges, particularly with

respect to argument (2), that it does not seek a retroactive re-allocation of power. In addition, it urges that any redistribution of power by the Bureau should be treated as a "withdrawal" of CVP power previously "banked" with PG&E pursuant to Contract 2948A between the Bureau and PG&E.

The court recognizes that PG&E purchases the power which it supplies to Santa Clara in part from the Bureau of Reclamation and that the present escrow arrangement prevents PG&E from presently recouping its costs for this power. The court further recognizes that should the Bureau determine that all power supplied to Santa Clara by PG&E was, in fact, CVP power, PG&E will have to be compensated on some basis for its purchase of this power from the Bureau. Nevertheless, the paramount concern of this court is that the Bureau of Reclamation be given a free hand upon remand of this action to reconsider its power allocation scheme in light of the requirements of due process and to formulate standards and guidelines for the allocation of CVP power in accordance with this court's Decision of July 23, 1976. In view of this, the court will not rule upon any of the substantive arguments raised by the parties in connection with this motion. Rather, the court will reserve its ruling on these matters until such time as it becomes necessary to review any action taken by the Bureau of Reclamation.

However, it is the court's conclusion that the amount presently contained in the escrow fund is more than adequate to presently protect the rights of the parties. In view of this and in consideration of general equitable principles the court will order that twenty-five percent (25%) of the amount presently contained in the escrow account be paid to PG&E, that twenty-five percent (25%) of all future

payments designated for deposit into the escrow account be paid directly to PG&E, and the remainder (75%) be deposited into the account. These payments to PG&E are to be subject to repayment upon a determination by the Bureau of Reclamation of the manner in which the power in question should be allocated and upon such terms as it directs.

Accordingly, PG&E's motion for reconsideration is denied. However, it is ordered that the court's judgment in this case is modified as follows:

Twenty-five percent (25%) of the amount presently contained in the escrow account shall be disbursed to PG&E, twenty-five percent (25%) of all future payments designated for deposit into the escrow account be paid directly to PG&E, and the remainder (75%) be deposited into the account. It is further ordered that the above amounts are to be paid to PG&E subject to repayment upon a determination by the Bureau of Reclamation of the manner in which the power in question shall be allocated and upon such terms as it directs.

AUG 2 1978

No. 78-9

MICHAEL RODAK, JR., CLERK

IN THE
Supreme Court of the United States
OCTOBER TERM, 1978

PACIFIC GAS AND ELECTRIC COMPANY, *Petitioner*

v.

CITY OF SANTA CLARA, CALIFORNIA, *Respondent*

**BRIEF IN OPPOSITION TO
PETITION FOR A WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT**

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**BRIEF IN OPPOSITION TO
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COUNTERSTATEMENT OF THE CASE

The Petition for Writ of Certiorari filed by Pacific Gas and Electric Company (PGandE) in the present instance arises out of the same Opinions Below complained of by the City of Santa Clara, California (Santa Clara) in its Petition for Writ of Certiorari filed July 3, 1978 (*City of Santa Clara, California v. Cecil D. Andrus, et al.*, No. 78-35). As can be seen from a review of Santa Clara's Petition, both Santa Clara and PGandE agree that the import of the subject matter now before this Court requires intervention, although for quite different reasons.

Santa Clara's assignments of error basically look forward and seek to establish a framework for rational federal decision-making with respect to the precious commodity of hydroelectricity generated by the federal government at vast public works projects. To be sure, Santa Clara would benefit from a reversal of the Court of Appeals on its assignments of error but so too would federal power marketing agencies and all preferred customers of the federal defendants below since unfettered power to discriminate, if left with the federal defendants, will surely lead to more, and not fewer disputes over low-cost, hydroelectric power.

PGandE, on the other hand, seeks to recover what it thought it had; the use of federal hydrocapacity, constructed with public funds, as an inherent part of its integrated generation and transmission system notwithstanding the clear congressional directives that the benefits of hydroelectricity be made available first to entities like Santa Clara.

PGandE's legal arguments in support of its private interests are premised on certain factual claims that simply are not supported by the record, nor by reality.

In the very first paragraph of the Statement of the Case, PGandE portrays itself as an innocent bystander (a stakeholder, if you will), caught in the middle of a struggle that "... at base remains, a dispute among preference customers..." (PGandE Petition at 5). Later, PGandE states that it "makes no profit" in having federal power available to it (*Ibid.* at 6, 13) and is "an innocent bystander" that should not be penalized by the Santa Clara-federal defendants' dispute (*Ibid.* at 16).

Contrary to the inference PGandE would have this Court draw as to the nature of the controversy, Santa Clara has consistently maintained that CVP sales to PGandE, a non-preference customer, ahead of Santa Clara, a preference customer, were and are void under the preference clause as found in both 43 U.S.C. § 485h(c) and 16 U.S.C. § 825s and under PGandE's contract with the federal defendants (Contract No. 2948A). In addition, Santa Clara has consistently claimed that PGandE reaps enormous economic benefit from its improper access to CVP power and that the attempted withdrawals of CVP power from Santa Clara had as much to do with PGandE's desires and prompting as the federal defendants' decisionmaking.

On two of these three points the Court of Appeals agreed with Santa Clara. On the question of the benefits to PGandE, the Court of Appeals held:

The plain fact is that the power which is conveyed to PGandE does not sit idly in storage, awaiting withdrawal by the government. Instead it is resold by PGandE to its own customers at a substantial mark up. PGandE Appendix A, at 19.

In addition to its holding that CVP sales to PGandE are suspect under the applicable preference clause, the Court of Appeals also held that:

The contract between PGandE and the Secretary expressly provides that the Secretary is to supply all of his preferred customers before selling to PGandE. *Ibid.* at 35.

As to PGandE's status as "an innocent bystander," the Court of Appeals made no finding. Rather, the Court of Appeals only *assumed* PGandE's innocence

for purposes of its suggestions for relief on remand. Thus the Court of Appeals stated:

We base our assumptions as to interest upon a further assumption that PGandE is an innocent third party, caught between the conflicting claims of Santa Clara and the position of the Secretary. *Ibid.*

The reason the Court of Appeals made this assumption is that Santa Clara has never had the opportunity to present evidence on the point since the controversy was resolved by the District Court following cross motions for summary judgment on certain portions of the controversy. On remand to the District Court, Santa Clara will present evidence on PGandE's involvement in the attempted withdrawals of power from Santa Clara.

PGandE makes other statements that are at odds with both the record below, and reality.

In its Petition (at 6), PGandE maintains that:

The CVP power arrangement was developed by the Secretary in 1964 to enable CVP to serve the full demand of then existing customers through 1980...

In fact, both the District Court and the Court of Appeals found that no "arrangement" with respect to CVP was finalized until 1972, well after the time Santa Clara was being served as a preferred customer of CVP, and that the Secretary never made a decision to limit CVP capacity for the benefit of the superpreference customers, *albeit* CVP continues to be managed as

if that decision had been made.¹ PGandE Appendix A at 8; PGandE Appendix C at 64-68.

PGandE also references the escrow arrangement between PGandE and Santa Clara and states:

The disputed funds . . . have been placed in an escrow account by Santa Clara pending the resolution of its controversy with the government. (PGandE Petition at 8).

While this is true enough, PGandE neglects to inform this Court that the escrow mechanism was established at PGandE's request pursuant to two separate contractual agreements which provide that the escrow funds will be dispersed to PGandE or Santa Clara depending upon the resolution of the controversy over the legality of CVP power sales to PGandE and the superpreference customers as alleged in Santa Clara's complaint initiating the litigation. Thus PGandE's second Reason for Granting the Writ (*Ibid.* at 15-19) must be considered in the light of PGandE's voluntary agreement to the escrow arrangement and the formula for disposition of the funds. In other words, whatever merits PGandE's equitable arguments may have in another context, here PGandE has, by contract, agreed to the escrow account and a disposition of funds depending upon the resolution of the controversy.²

¹ PGandE's continuing insistence that a decision was made by the Secretary to limit CVP sales to the superpreference customers underscores Santa Clara's contention, and the District Court's holding, that the Secretary did have power marketing policies that were never published as required by 5 U.S.C. § 552(a)(1). See Santa Clara's Petition for Writ of Certiorari, at 16-20. PGandE cannot have it both ways.

² PGandE never even raised its "equitable" argument until after the initial decision by the District Court. PGandE, obviously caught off guard by the District Court's holdings, first raised the argu-

With these factual clarifications in mind, Santa Clara now turns to PGandE's Reasons for Granting the Writ.

ARGUMENT

I. PGandE's Claim of Reasonable Administrative Construction of the Preference Clause is Based Upon Imagination and Conjecture and is of No Help in any Event.

PGandE claims the Appeals Court erred in overturning a "reasonable interpretation" by the Secretary of the preference clause and cites a panoply of cases to the effect that the Court of Appeals was unwarranted in overturning this interpretation. PGandE Petition at 11-12. According to PGandE, the Secretary concluded that he could sell power to PGandE first since ". . . he was not choosing between two equal offers from PGandE and Santa Clara." *Ibid.* at 12.

If this claim is true, it is news to Santa Clara and, one suspects, news to the Secretary, since it is a claim not heretofore made by the Secretary, or for that matter, by PGandE. One will search in vain through all of the myriad briefs and pleadings heretofore filed in various courts for even a reference to this argument.³

Assuming *arguendo* the accuracy of PGandE's claim on the Secretary's interpretation of the preference clause, it is of no help to PGandE. The argument is

ment in its motion for modification of judgment which led to the Order as reflected in PGandE's Appendix D. The argument, when first raised, was resisted by Santa Clara due in part to the existence of the escrow agreements, and this argument, presumably, influenced both the District Court and the Court of Appeals.

³ Note that PGandE again acknowledges the existence of a firm Secretarial policy, a policy never published as required by 5 U.S.C. § 552(a)(1).

premised on the legal proposition that preference does not exist where (1) the non-preference entity receives no benefits (or makes no profit) from the purchase and resale of preference power⁴ and (2) the non-preference entity makes a superior offer for the power than the preference entity.

Santa Clara submits that PGandE's strained interpretation of the preference clause is not even remotely supportable.

First, the preference provisions of 43 U.S.C. § 485h(c) and 16 U.S.C. § 825s are plain on their face. They both mandate that "preference shall be given"; not that preference shall be given only where the circumstances stated by PGandE are not present. Under the "ordinary man" or "plain meaning" canon of statutory construction there is thus no need to go beyond the face of the statutes. *Malat v. Riddell*, 383 U.S. 569, 571 (1966). Here, as in the controversy over Tellico Dam and the Snail Darter, "[o]ne would be hard pressed to find a statutory provision whose terms were any plainer than . . ." the aforementioned preference clauses. *Tennessee Valley Authority v. Hill*, — U.S. —, 46 U.S. L.W. 4673, 4678 (June 16, 1978).

Second, the construction placed on the preference clause by the Court of Appeals is mandated by this Court's decision in *United States v. City and County of*

⁴ As has been seen, *supra* at 3, the Court of Appeals did find that PGandE sells CVP power at a mark up to its retail customers. PGandE further benefits from CVP in that it is relieved of installing a like amount of generating capacity on its system at a substantially higher cost which would impede load growth on its system and dilute shareholder equity, assuming new plant is financed with the same mix of debt and equity capital now utilized in PGandE's capital structure.

San Francisco, 310 U.S. 16 (1940) where, ironically, PGandE lost the benefits of still another hydroelectric project constructed with public funds.⁵

Third, PGandE's sparse quotations from the legislative history of 43 U.S.C. § 485h(e) ignores the scholarly discussion of the genesis of the federal preference clause by the District Court and the District Court's unconditional finding that:

Public agencies and co-ops were to get first shot at the power generated by federal projects, a concept tracing back to public ownership of water resources and the power flowing therefrom. (footnotes omitted). PGandE Appendix C at 63.

In light of this history, it simply cannot be maintained that Congress only intended preference to attach where the preference entity make an offer equal to the offer by the non-preference entity.

Similarly, PGandE's market theory of preference is inconsistent with the rate setting criteria found in 16 U.S.C. § 825s. That is, PGandE argues that the Secretary has the discretion to accept the highest price offered for preference power if the preference entity is not willing to meet the bid. If this were true, the Secretary could sell preference power at rates in excess of those needed to recover project costs if the market would bear the traffic (which it clearly would these days). Yet § 825s provides in part:

Rate schedules shall be drawn having regard to the recovery (upon the basis of the application of such rate schedules to the capacity of the electric

facilities of the projects) of the cost of producing and transmitting such electric energy . . .

It is safe to say that not even the federal defendants would take issue with the proposition that the Secretary must set, charge or accept rates for preference power on a basis designed to only recover project costs.

Finally, PGandE's reference to 30 Op. Att'y. Gen. 197 (1913) in support of its market theory of preference adds nothing to its argument. The Attorney General was there construing the Reclamation Act of 1906 (43 U.S.C. § 522), a precursor to 43 U.S.C. § 485h(e), which gave the Secretary the discretion to sell surplus power, "giving preference to municipal *purposes*" (emphasis added), as opposed to municipal utilities. That provision then did not require that entities like Santa Clara receive a preference, but only that public or private utilities who would use the power for municipal purposes receive a preference.

The statutes at issue here, which require that entities like Santa Clara receive a preference, have also been construed by the Attorney General in 41 Op. Att'y. Gen. 236 (1955).

The opinion was written in response to an inquiry of the Secretary on the legality of a contract between the Interior Department, acting through the Southeastern Power Administration (SEPA) and Georgia Power Company, a privately owned utility like PGandE.

None of the preference customers nor the government at that time owned or controlled any transmission facilities which connected the Clark Hill project with any of the preference customers. Georgia Power had control over all of the backbone transmission lines

⁵ Presumably PGandE set its rates then in the same manner it does now and was not reselling Hetch Hetchy power "at a profit."

that could link SEPA and its customers. The Company proposed to purchase power from the government at Clark Hill and then supply an equivalent amount of power to preference customers designated by SEPA. *Ibid.* at 238. The preference customers objected to the arrangement and suggested instead that preference customers purchase directly from Clark Hill through an arrangement whereby Georgia Power would transmit power to preference customers. *Ibid.* at 239.

It was argued that when a preference customer offers to purchase the power from the government, "the facts require the application by the Secretary of the preference provision of Section 5 of the Flood Control Act of 1944." *Ibid.* at 241 (emphasis supplied). Note that this argument was being made by a preference customer which was attempting to obtain initial service and which did not then have the present ability to receive the service.

... [I]t is my opinion that section 5 means that when the Secretary of the Interior has before him two competing offers to purchase power, one by a preference customer and the other by a non-preference customer, the former does not have at the time the physical means to take and distribute the power, he must contract with the preference customer on condition that such customer will, within a reasonable time to be fixed by the Secretary, obtain the means for taking and delivering the power. If within the period fixed the preference customer does not do so, the Secretary is then free to contract with the non-preference customer. Such a contract, however, would have to contain, in the situation here involved, adequate provision enabling the Secretary to deal with the preference claimant should it subsequently obtain the means to take and deliver the power. It is not necessary for me at this time to delineate the terms of such

a provision. Nor, in the circumstances here present, does the Secretary, in my judgment discharge his statutory duty of giving a preference in "the sale" of power to public bodies and cooperatives by disposition to a private company under an arrangement whereby the latter obligates itself to sell an equivalent amount of power to preference customers to be designated by the Secretary. Cf. *United States v. City and County of San Francisco*, 310 U.S. 16. This is what the proposed contract amounts to; it is not a wheeling arrangement for transmission of power belonging to another over the lines of the Georgia Power Company.

Ibid. at 243-44 (emphasis supplied).

In response to the Secretary's argument that the contract with Georgia Power would be just as favorable to the preference customers as contracts with them, the Attorney General responded:

It is also to be noted, as pointed out above, that the cooperative does not appear to share your department's view that the contract would be as favorable to preference claimants as any other arrangement would be. However, even if there was no dispute on this score, it could not justify a disregard of the mandatory provision of Section 5 that preference be accorded public bodies and cooperatives in "the sale" of power.

Ibid. at 244 (emphasis supplied).

Significantly, the Attorney General concluded:

I cannot conceive, in the face of a plain mandate for preference to public bodies and cooperatives and the congressional concern, as evidenced in related statutes, for protection of their preferential status, that it is possible to say apropos of section 5 that the Congress intended a preference pur-

chaser to demonstrate its present ability to take and distribute the power in order to avail itself of its statutory privileges.

Ibid. at 245.

Thus it seems clear to Santa Clara beyond peradventure that PGandE's assignment of error on the Court of Appeals' disposition of the preference clause issue as it impacts PGandE is misplaced. Simply stated, the Court of Appeals acted in a manner consistent with all existing authority on the subject.⁶

II. The Court of Appeals' Ruling on Relief for Santa Clara was Required and is Consistent with Existing Law.

In support of its argument that the Court of Appeals improperly gave retroactive effect to its decision, PGandE relies upon several cases decided by this Court which, according to PGandE "mandates a decision favorable to PGandE with respect to its counter-claim. . . ." PGandE Petition at 17-18. Santa Clara submits that no case cited by PGandE is applicable to its instant situation and further submits that even if the analysis proposed by PGandE were utilized, the remedy granted by the Court of Appeals in this aspect of the case would be correct.

The issues before the Court of Appeals in its determination of the proper remedy to apply was: Which of two competing applicants should receive federal benefits accruing during the period of a controversy where to grant the benefit to one applicant would violate fed-

⁶ As regards the Court of Appeals' holding with respect to Santa Clara's treatment vis-a-vis the superpreference customers, it seems equally clear that the holding conflicts with the above quoted opinion of the Attorney General.

remedy, than is Santa Clara. Third, PGandE is not remediless. It may have grounds to sue the United States, as was referenced by the Court of Appeals. (PGandE Appendix A at 35).

Santa Clara submits that the remedy afforded by the Court of Appeals in no way violates the teachings of this Court and the retroactive applicability of the remedy is necessary, appropriate and correct.

As important, the remedy suggested by the Court of Appeals is no more nor less than that bargained for by PGandE. As both the District Court and the Court of Appeals noted, Santa Clara has consistently taken the position that the attempted withdrawals were and are illegal and of no effect and thus no "retroactive allocation" is involved. In recognition of this position, PGandE and Santa Clara established an escrow, pursuant to contract, for deposit of the funds in dispute. The agreed upon formula for dispersal of the funds is keyed to the final outcome of the litigation.

The Court of Appeals, while not holding sales to PGandE illegal, found them suspect under 43 U.S.C. § 485h(c). If the District Court ultimately finds the sales illegal under the standards set by the Court of Appeals, Santa Clara under the escrow agreements, has a clear entitlement to the escrowed funds.

In similar circumstances, the District of Columbia Circuit has exercised its equitable powers to provide relief for wholesale customers of a private utility where the impacted customers were not entitled to the relief under the Federal Power Act due to an illegal exercise of the suspension powers of the Federal Power Commission. The Court of Appeals there noted that the re-

lief provided was consistent with the posture of the litigants before the FPC.

Moreover, the equitable stake of I&M in our main opinion is not significant. I&M sought from the Commission no greater relief than our modified order now grants. *Indiana & Michigan Electric Co. v. F.P.C.*, 502 F.2d 336, 345 (D.C. Cir. 1974), cert. denied, 420 U.S. 946 (1975).

Here the equitable stake of PGandE "is not significant" since the relief suggested by the Court of Appeals is identical to the bargain it struck when entering into the escrow agreements.

CONCLUSION

For the foregoing reasons, Santa Clara respectfully submits that PGandE's Reasons for Granting the Writ are without merit and require no action by this Court.

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In the Supreme Court of the United States

OCTOBER TERM, 1978

PACIFIC GAS AND ELECTRIC COMPANY, PETITIONER

v.

CITY OF SANTA CLARA, CALIFORNIA, ET AL.

CITY OF SANTA CLARA, CALIFORNIA, PETITIONER

v.

JAMES R. SCHLESINGER, SECRETARY OF ENERGY, ET AL.

***ON PETITIONS FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR
THE NINTH CIRCUIT***

**BRIEF FOR THE FEDERAL RESPONDENTS
IN OPPOSITION**

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In the Supreme Court of the United States

OCTOBER TERM, 1978

No. 78-9

PACIFIC GAS AND ELECTRIC COMPANY, PETITIONER

v.

CITY OF SANTA CLARA, CALIFORNIA, ET AL.

No. 78-35

CITY OF SANTA CLARA, CALIFORNIA, PETITIONER

v.

JAMES R. SCHLESINGER, SECRETARY OF ENERGY, ET AL.

*ON PETITIONS FOR A WRIT OF CERTIORARI TO THE
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BRIEF FOR THE FEDERAL RESPONDENTS
IN OPPOSITION

(1)

OPINIONS BELOW

The opinion of the court of appeals, as amended (Pet. App. 1a-38a),¹ is reported at 572 F.2d 660. The opinion of the district court (Pet. App. 39a-81a) is reported at 418 F. Supp. 1243.

JURISDICTION

The judgment of the court of appeals was entered on February 1, 1978. Petitions for rehearing filed by the City of Santa Clara ("Santa Clara") and by Pacific Gas and Electric Company ("PG & E") were denied by the court of appeals on April 4, 1978. The petitions for a writ of certiorari were filed on July 3, 1978. The jurisdiction of the Court is invoked under 28 U.S.C. 1254(1).

QUESTIONS PRESENTED

The Secretary of the Interior² must give a "preference * * * to municipalities and other public corporations or agencies," 43 U.S.C. 485h(c), in the sale of hydroelectric power generated by the federal Central

¹ "Pet. App." refers to the appendix in No. 78-35.

² The Secretary of the Interior has been named as the federal respondent throughout this litigation. The issues involved in this case will continue to be determined under the statutes setting forth the authority of the Secretary of the Interior. See note 11, *infra*. Pursuant to Section 705(e) of the Department of Energy Organization Act, Pub. L. 95-91, 91 Stat. 607, however, we have substituted the Secretary of Energy for the Secretary of the Interior as the respondent in this petition. See also note 11, *infra*.

Valley Project (CVP). The petitions present the following questions concerning the Secretary's authority to allocate CVP electrical power among "preference" customers.

Petition No. 78-35:

1. Whether decisions of the Secretary allocating CVP electrical power among preference customers are subject to judicial review.
2. Whether the Secretary must formulate and publish rules of procedure for allocating CVP electrical power among preference customers.
3. Whether the Secretary violated the Due Process Clause of the Fifth Amendment in his decision to withdraw a portion of the CVP electrical power allocated to petitioner Santa Clara.

Petition No. 78-9:

4. Whether a "conditional sale" of CVP electrical power to a non-preference customer—whereby the purchaser undertakes to return equivalent power to the Secretary on demand at a future date—violates the statutory preference requirement.
5. If so, whether sales of CVP electrical power made in violation of the "preference" requirement may be rescinded and retroactively allocated to a particular preference customer by judicial order.

STATEMENT

The Central Valley Project ("CVP") is a multi-purpose federal reclamation project located in the

Central Valley of California.³ The CVP generates a substantial amount of hydroelectric power, which the Secretary of the Interior distributes to a large number of users in Northern and Central California (Pet. App. 2a). Section 9(c) of the Reclamation Project Act of 1939, 53 Stat. 1194, as amended, 43 U.S.C. 485h(c), provides that, in marketing the electrical power generated by the federal reclamation project, the Secretary is to give a "preference * * * to municipalities and other public corporations or agencies."

The electrical power generated by CVP sells at a price substantially below the price charged by private electrical utilities (Pet. App. 3a n. 2). Accordingly, the demand for CVP power ordinarily exceeds the available supply, and the Secretary has found it necessary to allocate the CVP power among the many claimants (*id.* at 2a-3a).

Santa Clara first sought an allocation of CVP power in June 1960. At the time its application was filed, however, the city was under contract to purchase all of its electrical power from PG & E. On February 19, 1962, Santa Clara reviewed its application and acknowledged that it was unable to provide a market for federal power until the expiration of

³ The CVP was authorized for the purpose of improving navigation, regulating the flow of rivers, providing for water storage and delivery, reclaiming land, "and for the generation and sale of electric energy as a means of financially aiding and assisting such undertakings and in order to permit the full utilization of the works constructed to accomplish the aforesaid purposes." 50 Stat. 850. A detailed description of the CVP is contained in *Ivanhoe Irrigation District v. McCracken*, 357 U.S. 275, 280-283.

the city's contract with PG & E on August 27, 1967. The Secretary then informed the city that he would keep Santa Clara's application on file for consideration nearer the time the city would be free to purchase federal power (Pet. App. 3a).

New electrical generating facilities were opened at CVP in 1964. The Secretary allocated the power generated by these facilities to preference customers who were able to make immediate use of it. One year later, in response to Santa Clara's repeated requests, the Secretary entered into a contract with Santa Clara to supply the City with 75,000 kilowatts of CVP power on a withdrawable basis. At the time the contract was concluded, the Secretary told the City that all anticipated power from CVP facilities was committed to meet the growth needs of existing preference customers, and the contract specifically provided that the Secretary could unilaterally reduce the amount of power delivered to Santa Clara (R. 54; Exh. 7). During the first few years of this contract, Santa Clara's allotment was revised upwards several times. In 1970, however, the Secretary began withdrawing power from Santa Clara to meet the needs of other preference customers (Pet. App. 3a-5a). Santa Clara replaced the CVP power by purchasing electricity from PG & E.

During this period, the Secretary also made "conditional sales" of CVP power to PG & E, a non-preference customer. Under the conditional sales agreement, PG & E received the power as a "bank" for the Project, and it undertook to return the power

on CVP's demand in the future. The purpose of this arrangement was to assure that a steady supply of power would be available to CVP preference customers in periods where CVP production fell below minimum levels of firm demand.

In July 1975 Santa Clara filed this action in the United States District Court for the Northern District of California challenging the legality of the Secretary's decisions reducing Santa Clara's allocation of CVP power. Santa Clara also asserted that the CVP power that was being "banked" with PG & E was being sold by the Secretary in violation of the "preference" requirement of the Reclamation Act. The city contended that its deliveries of power from PG & E were, in fact, indirect purchases of CVP power and that the City was entitled to this power as a "preference" customer. Santa Clara refused to pay bills submitted to the city by PG & E and instead paid the sums claimed due into an escrow account. PG & E then intervened in this lawsuit as a defendant and filed a counterclaim against the City for the amount of the funds deposited by Santa Clara in the escrow account (Pet. App. 5a).

The district court ruled largely in the City's favor. The court held that decisions by the Secretary allocating CVP power are judicially reviewable, that the Secretary erred in failing to promulgate rules of procedure governing the allocation of such power, and that the Secretary's actions had denied due process of law to Santa Clara (Pet. App. 51a-75a). The court directed the Secretary (1) to develop and promulgate

appropriate procedures for the allocation of CVP power and (2) to apply those procedures to determine "what Santa Clara's allocation during the withdrawal period *would have been*" had the appropriate procedure been employed (*id.* at 75a-77a) (emphasis in original). Pending the Secretary's determination pursuant to this order, the court directed all payments for the power received by Santa Clara from PG & E to be retained in the escrow account (*id.* at 76a-77a).⁴

The court of appeals affirmed in part, reversed in part and remanded to the district court for further proceedings. The court held (Pet. App. 9a-13a) that the Secretary's allocation of CVP power among "preference" customers is not judicially reviewable because it is "agency action * * * committed to agency discretion by law." 5 U.S.C. 701(a)(2). The court held, however, that sales of CVP power to non-preference customers are judicially reviewable and that "conditional sales" of CVP power to non-preference customers are not valid unless they are made for the limited purpose of protecting "the efficiency of the project for irrigation purposes." 43 U.S.C. 485h(c) (Pet. App. 19a-20a). The court held that the district court should determine on remand whether the "conditional sales" to the non-preference customer in this case were justified by this statutory objective

⁴ The district court subsequently modified its order to permit 25 percent of the escrow funds to be released to PG & E. 428 F. Supp. 315.

(*id.* at 20a).⁵ The court of appeals determined that no additional administrative proceedings were required in this case, however, because, contrary to the decision of the district court, the Secretary is not required to promulgate procedures for the allocation of CVP power and the Secretary did not violate the Due Process Clause when he reduced the allocation of CVP power to Santa Clara without conducting a hearing (Pet. App. 21a-30a).

ARGUMENT

1. Petitioner Santa Clara contends (78-35 Pet. 10-16) that the Secretary's decisions allocating CVP power among "preference" customers are reviewable under the Administrative Procedure Act, 5 U.S.C. 702. This Act, however, does not provide for judicial review of "agency action * * * committed to agency discretion by law." 5 U.S.C. 701(a)(2). Although the Act generally favors judicial review, Section 701 (a)(2) provides an exception "in those rare instances where 'statutes are drawn in such broad terms that in a given case there is no law to apply.'" *Citizens to Preserve Overton Park, Inc. v. Volpe*, 401 U.S. 402, 410.

The court of appeals correctly concluded (Pet. App. 9a-13a) that Congress has not established legal standards for the courts to employ in reviewing the alloca-

⁵ The court also left open on remand other questions concerning Santa Clara's claim that it was entitled to the power received by PG & E or capable of utilizing it at the time the conditional sales were made (*ibid.*).

tion of CVP power among "preference" customers, and that the Secretary's decisions thus are not judicially reviewable. Section 9(c) of the Reclamation Act, 43 U.S.C. 485h(c), provides only that the Secretary is to give a "preference" to municipalities and other public corporations in the sale of CVP power. The statute provides no guidance to either the Secretary or the courts about how to distinguish between competing "preference" customers in allocating the limited power available. It is the ordinary rule that "[t]he general authority [conferred on a federal agency] to make contracts normally includes the power to choose with whom and upon what terms the contracts will be made. When Congress in an Act grants authority to contract, that authority is no less than the general authority, unless Congress has placed some limit on it." *Arizona v. California*, 373 U.S. 546, 580. Since Congress has placed no limitations on the Secretary's discretion to allocate CVP power among preference customers, the Secretary has the same discretion that any private party would have to choose customers when demand exceeds supply. The allocation is not subject to judicial review. See *Arizona Power Authority v. Morton*, 549 F.2d 1231, 1241 (C.A. 9), certiorari denied, 434 U.S. 835.

Petitioner Santa Clara points out (78-35 Pet. 11-12) that Section 5 of the Flood Control Act of 1944, 58 Stat. 890, 16 U.S.C. 825s, requires the Secretary to dispose of power "in such manner as to encourage the most widespread use thereof," and it contends that this provides a legal standard to guide the Secretary's

allocation of CVP power among preference customers. As the court of appeals observed, however, this statute is inapplicable to the CVP project (which is administered by the Bureau of Reclamation) because, “[b]y its terms [Section 825s] governs only the sale of power generated by flood control projects operated by the Department of the Army” (Pet. App. 11a; see *id.* at 88a-89a). Moreover, even if this statute were applicable to the CVP project, it provides no standard for administrative conduct against which the Secretary’s action can be measured. See *Arizona Power Authority v. Morton*, *supra*, 549 F.2d at 1252. Literal application of the “most widespread use” standard would produce absurd and unrealistic consequences.⁶ There is nothing in the statute to guide any choice among more moderate interpretations of the standard, and the statute thus preserves “the exercise of the widest administrative discretion by the Secretary” (Pet. App. 11a). See *Strickland v. Morton*, 519 F.2d 467, 469-470 (C.A. 9). As this Court held in *Panama Canal Co. v. Grace Line, Inc.*, 356 U.S. 309, 318, “where the duty to act turns on matters of doubtful or highly debatable inference from large or loose statutory terms, the very construction of the statute is a distinct and profound exercise of discretion.”

2. Petitioner Santa Clara contends (78-35 Pet. 16-22) that the Secretary is required by the Admini-

⁶ Thousands of “municipalities and other public corporations or agencies,” 43 U.S.C. 485h(c), could seek allocations of preference power, and each would receive a trivial amount if the “most widespread use” standard meant that every applicant should receive some power.

istrative Procedure Act to develop and promulgate rules to be followed in allocating CVP power among “preference” customers. Petitioner relies on 5 U.S.C. 552(a)(1)(C), (D), which provide that each agency is to publish in the Federal Register “rules of procedure * * * [and] substantive rules of general applicability adopted as authorized by law, and statements of general policy or interpretations of general applicability formulated and adopted by the agency * * *.”

The publication requirement of the APA does not independently create any duty for agencies to adopt rules, regulations or statements of general applicability. It requires only that, when such rules or statements are “formulated and adopted” by the agency, they must be published. Dean Acheson, Chairman of the committee appointed by President Roosevelt to make recommendations for improving administrative procedure, testified before the Senate Judiciary Committee as to the scope of the proposed predecessor to the current provision in 5 U.S.C. 552(a)(1):

There has been some misunderstanding about the scope of [this provision]. It is not intended to require agencies to make up policies and interpretations of law, or procedures, out of whole cloth merely for the sake of making them. Rather this section is intended to require agencies to make available to the public those policies and procedures which have become crystallized, which through experience have been formulated and adopted.

Hearings on S. 674, S. 675 and S. 918 before the Senate Committee on the Judiciary, 77th Cong., 1st

Sess. 829 (1941).⁷ As the court of appeals discussed at length in this case (Pet. App. 23a-24a), the legislative history of the Administrative Procedure Act indicates that, in enacting the publication requirement, Congress "sought only to insure that those administrative rules which had 'crystallized' would be made available to the public * * *"⁸ (*id.* at 24a).⁹

The court of appeals correctly determined that the publication requirement of 5 U.S.C. 552(a)(1) is applicable only when the agency has in fact formulated and adopted procedures.¹⁰ Petitioner Santa Clara's very theory of this case, however, has been that the Secretary has not formulated rules for allo-

⁷ See also S. Rep. No. 752, 79th Cong., 1st Sess. 12 (1945); H.R. Rep. No. 1980, 79th Cong., 2d Sess. 21-22, 28 (1946).

⁸ Petitioner cites three cases for the proposition that the publication requirement of Section 552(a)(1) creates a duty for agencies to formulate rules of procedure (78-35 Pet. 18). In two of these cases, however, the courts concluded that the agency's substantive statute, and not the publication requirement of the APA, required the agency to adopt hearing procedures. For example, in *Gonzalez v. Freeman*, 334 F.2d 570, 580 (C.A.D.C.), the court relied on its "interpretation of the [Commodity Credit] Act" in determining that a hearing requirement was implicit in the agency's statutory scheme. See also *W. G. Cosby Transfer & Storage Corp. v. Froehlke*, 480 F.2d 498, 503 (C.A. 4). In the third case, *Northern California Power Agency v. Morton*, 396 F. Supp. 1187, 1191, 1193 (D. D.C.), affirmed, 539 F.2d 243 (C.A.D.C.), the court stated that the Due Process Clause required a "limited on-the-record" hearing, and it determined that the agency's "informal explanations of [its] contemplated procedures left many important areas impermissibly vague and undefined."

⁹ Cf. *Morton v. Ruiz*, 415 U.S. 199, 234-235.

cating CVP power among preference customers.¹¹ Accordingly, the court correctly concluded that the publication requirement of 5 U.S.C. 552(a)(1) is inapplicable in this case.

Furthermore, no other provision of the APA or of the Reclamation Act requires the Secretary to adopt uniform rules for the allocation of CVP power. The decisions of the Secretary allocating CVP power are exempt from the rulemaking procedures of the APA because they concern "public property, loans, grants, benefits, or contracts." 5 U.S.C. 553(a)(2). See Pet. App. 25a.¹²

¹⁰ Petitioner Santa Clara asserts in this Court for the first time (78-35 Pet. 17) that the Secretary has adopted an allocation procedure. This assertion is inconsistent with the record in this case (see Pet. App. 25a, 68a).

¹¹ On October 1, 1977, the power marketing functions of the Secretary of the Interior were transferred to the Secretary of Energy. Section 302(a)(1)(E), 91 Stat. 578. Under the organizational Act of the Department of Energy, the exemption from rulemaking requirements established in 5 U.S.C. 553(a)(2) for matters relating to public property and contracts is not available. Section 501(b)(3), 91 Stat. 588. Petitioner Santa Clara thus asserts (78-35 Pet. 20) that, after October 1, 1977, all CVP power must be allocated in conformance with APA rulemaking procedures.

The removal of the rulemaking exemption is irrelevant to the proper disposition of this case. The Department of Energy Organization Act is not intended to have retroactive application or to apply to pending litigation. Section 705(c) of the Act, 91 Stat. 607, specifically provides that:

the provisions of this Act shall not affect suits commenced prior to the date this Act takes effect, and * * * in all such suits, proceedings shall be had, appeals taken,

3. Petitioner Santa Clara maintains (78-35 Pet. 22-26) that the Secretary violated the Due Process Clause when he withdrew CVP power from Santa Clara and reallocated it to other preference customers. The Due Process Clause is inapplicable to the Secretary's decision, however, because Santa Clara possessed no legitimate claim of entitlement or other property interest that was affected by the Secretary's reallocation of CVP power among preference customers. As the court of appeals stated, "[w]hile the City enjoys a statutory preference under the reclamation laws, the Secretary remains free to allocate the total power output of the CVP to other preference users" (Pet. App. 29a). Since the city possesses no "property" interest in CVP as against other preferred entities * * * no procedural safeguards are constitutionally required in deciding between them" (*ibid.*). See generally *Meachum v. Fano*, 427 U.S. 215.

Petitioner contends that, despite the absence of formal rules governing the allocation of CVP power among preference customers, there are informal rules and understandings that provide Santa Clara an entitlement to continued receipt of CVP power in non-diminishing quantities. Petitioner relies on *Perry v. Sindermann*, 408 U.S. 593, 601, which states that

and judgments rendered in the same manner and effect as if this Act had not been enacted.

Since this suit was commenced prior to October 1, 1977, judgment in this case is to be "rendered in the same manner and effect as if this Act had not been enacted." *Ibid.*

[a] person's interest in a benefit is a "property" interest for due process purposes if there are such rules or mutually explicit understandings that support his claim of entitlement to the benefit * * *.

In this case, however, there are no "rules or mutually explicit understandings" supporting Santa Clara's claim of an expectation of a continued supply of any particular quantity of CVP power. Indeed, the written contract between the Secretary and Santa Clara authorizes the Secretary unilaterally to withdraw CVP power from the city's allocation (R. 54; Exh. 7). Cf. *Smith v. Organization of Foster Families*, 431 U.S. 816, 856 (Stewart, J., concurring). Both the Reclamation Act and the contract thus provide the Secretary with discretion in deciding whether to allocate or withdraw CVP power to or from preference customers. No fact that Santa Clara could prove at a hearing would require the Secretary to deliver power to it. The court of appeals was thus correct in its conclusion that Santa Clara possesses no entitlement or other property interest that is affected by the Secretary's allocation of the power among preference customers.¹²

¹² *Memphis Light, Gas & Water Division v. Craft*, No. 76-39, decided May 1, 1978, is not to the contrary. In that case the Court emphasized that residential electrical service could not be terminated "at will" under state law, and that due process required that some opportunity be given a customer to demonstrate that there was no just cause for the termination. Slip op. 9-16. In this case, however, there is no statutory or contractual restriction on the Secretary's discretion to allocate CVP power among preference customers.

4. Petitioner PG & E contends (78-9 Pet. 11-15) that the court of appeals erred in concluding that the "conditional sales" agreement between the Secretary and PG & E (a non-preference customer) is inconsistent with the preference requirement of the Reclamation Act (Pet. App. 18a-20a). We agree with PG & E that the conditional sale of CVP power to a private utility that undertakes to return the power upon the Secretary's future demand is consistent with the preference requirement where, as here, the purpose of the arrangement is to assure that firm power will be available to preference customers during any temporary future shortages of production at the CVP hydroelectric facilities. The Secretary's reasonable interpretation of the preference requirement should not have been rejected by the court of appeals. See *Train v. Natural Resources Defense Council*, 421 U.S. 60, 87; *Udall v. Tallman*, 380 U.S. 1, 16.

We do not, however, believe that the Court should review this question at this time. The court of appeals did not hold the conditional sales of CVP power to PG & E to be invalid; instead, the court remanded the case to the district court for it to determine whether these sales are justified by the need to protect "the efficiency of the project for irrigation purposes," 43 U.S.C. 485h(c) (Pet. App. 19a-20a). The court also indicated that the Secretary and PG & E may raise all other justifications or defenses concerning these conditional sales. Because the opportunity exists for further development of these defenses on remand, there is no substantial need for

immediate review of the decision of the court of appeals.

5. Petitioner PG & E also argues (78-9 Pet. 15-19) that, even if the conditional sales of CVP power to PG & E were invalid, they may not now be declared void. But because the court of appeals did not determine that the conditional sales were invalid, the case does not present such a question.

CONCLUSION

The petitions for a writ of certiorari should be denied.

Respectfully submitted.

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In the Supreme Court of the United States

No. 78-9

PACIFIC GAS AND ELECTRIC COMPANY,
Petitioner,
vs.

CITY OF SANTA CLARA, CALIFORNIA,
Respondent.

Reply Brief in Support of Petition for Certiorari

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INTRODUCTION

Pacific Gas and Electric Company (“PGandE”) has filed a petition seeking review of two questions—(1) whether the preference clause of the Reclamation Act of 1939 should be broadly construed to prohibit certain conditional sales of hydroelectric power to nonpreference customers and (2) whether retroactive equitable relief is available in a case such as this. The City of Santa Clara’s brief in opposition seeks to raise questions of fact and argues the merits of the issues presented at some length; it does not, however, directly dispute the importance of the issues presented nor the propriety of review by certiorari. Nonetheless, the Santa Clara brief calls for a response on a few points arguably relevant to the question of whether certiorari should be granted.

I. Santa Clara's Brief In Opposition Does Not Dispute That the Court of Appeals' Interpretation of the Preference Clause Is Contrary to an Administrative Interpretation of the Statute.

PGandE first argued in support of its Petition For Certiorari that the Court of Appeals' decision should be reviewed because, contrary to such decisions as *Train v. Natural Resources Defense Council*, 421 U.S. 60, 87 (1975), it rejected a reasonable administrative interpretation of a statute, approved by the district court, on which PGandE and many other entities had relied.

Certainly the Court of Appeals' decision that sales of CVP power to PGandE for banking and later delivery to preference customers violates the preference clause is contrary to the interpretation of the statute by the Secretary of the Interior. Santa Clara does not argue otherwise. Rather, Santa Clara appears to contend that the interpretation of the preference clause adopted by the Secretary of the Interior and the federal district court is not a "reasonable" interpretation of the statute, and, therefore, that the contrary interpretation adopted by the Court of Appeals need not be reviewed.

At the outset it is worth noting that a statutory interpretation accepted both by the agency charged with administration of a statute and a federal district judge is difficult to characterize as not a reasonable interpretation. In any event, Santa Clara's position that the Court of Appeals' construction of the preference clause is the only reasonable construction is flawed by errors of both fact and law.

A. THE INTERPRETATION OF THE PREFERENCE CLAUSE BY THE SECRETARY OF THE INTERIOR AND THE DISTRICT COURT IS A REASONABLE INTERPRETATION OF THE STATUTE; ITS REVERSAL BY THE COURT OF APPEALS SHOULD BE REVIEWED.

Santa Clara argues at some length to conclude that the Court of Appeals' application of the preference clause to banking transactions is "consistent with all existing authority on the subject." Brief in Opposition at 12. Viewed as a response to PGandE's Petition For Certiorari, this argument suggests that the Court of Appeals' interpretation of the preference clause is the only reasonable interpretation possible. The difficult burden of sustaining that position simply has not been met.

The question on the merits is whether it is reasonable to conclude that conditional sales of federal hydroelectric power to a nonpreference entity for "banking" do not violate the preference clause where all banked power is committed to later repurchase for delivery to preference customers and where the banking arrangement is necessary to meet the long term power needs of those customers. The Secretary of the Interior and District Court concluded that it was reasonable to so interpret the preference clause. As stated by the district court:

"In essence, energy is "banked" by PGandE for future Bureau use. The bank account provisions of the contract were included to enable the Secretary of the Interior to carry out a power marketing plan developed in 1964 to meet the long-term needs of preference customers. The withdrawals of power from Santa Clara beginning in 1971 were made as a part of this plan. In order for the Bureau to satisfy load growth of the then existing preference customers through 1980 (the time targeted in the 1964 marketing scheme), and at the same time have power available for anticipated Bureau loads coming on line (such as the San Luis

pumping unit scheduled for 1966-67), it was necessary to make provision in the scheme for some sort of power banking arrangement, and the Bureau—PG&E contract does just that. Hence, the court finds that the ‘sales’ of power to PG&E do not violate the preference provisions of 43 U.S.C. § 485h(e).”

PG&E Appendix C at 58-59 (footnotes omitted).

In its Petition For Certiorari, PG&E urged that one point establishing the reasonableness of this interpretation was the fact that in opting to sell power to PG&E for banking rather than to sell unconditionally to Santa Clara, the government was not choosing between equal offers. Thus the banking transaction with PG&E did not violate the “preference” requirement. Santa Clara attacks only this argument and ignores the equally important point that the banking arrangement was necessary to a long term plan for marketing all CVP power to selected preference customers. While in this Reply Brief we respond only to Santa Clara’s argument, the fact that the primary rationale of the District Court and Interior Department was left unchallenged in itself suggests that Santa Clara’s interpretation of the preference clause is not the only reasonable interpretation.

Santa Clara’s attack on PG&E’s argument that the government did not violate the requirement of “preference” because it was not choosing between equal offers relies solely on what Santa Clara claims to be the “plain meaning” of the statute and on decisions and opinions construing laws other than the one at bar.

Santa Clara’s argument that the “plain meaning” of the preference clause precludes the interpretation adopted by the Secretary of the Interior and the District Court is obviously wrong. The meaning attributed to the statute by

Santa Clara was not plain to the Interior Department or the District Court. The language of the statute merely provides:

“in said sales or leases preference shall be given to municipalities and other public corporations or agencies . . .”

Thus, the statute by its terms does not address the question of whether an immediate sale to a preference customer must take precedence over a later sale to a preference customer, to whom the government chooses to sell over a longer term, merely because the latter sale requires interim “banking” with a nonpreference entity. Nor does the statutory term “preference” require anything more than selling to a “preference agency” when faced with two equal offers.

When the plain meaning of a statute provides no guidance on a particular application of the law, the next usual recourse is to legislative history. Such legislative history of the Reclamation Act of 1939 as is pertinent supports the construction given the statute by PG&E. While Santa Clara characterizes the legislative history relied on by PG&E as “sparse,” it comes up with no legislative history to support its contrary interpretation of the law. Lacking any reasonable argument based on the statute or legislative history, Santa Clara ranges far afield to seek support for its position that the preference clause mandates sales to a preference customer even though that customer offers less favorable terms than those available from a nonpreference purchaser.

Santa Clara first asserts that the decision below was “mandated” by the decision in *United States v. City and County of San Francisco*, 310 U.S. 16 (1940). The difficulty with the argument is that *United States v. San Francisco* dealt with a statute which prohibited the City from selling

power to any private person or corporation for resale. 310 U.S. at 18-19. Thus the Court was not there interpreting a preference clause at all.

Next Santa Clara urges that the rate setting provisions of the Flood Control Act of 1944, 16 U.S.C. § 825s, are inconsistent with a “better offer” construction of the preference clause because they contemplate that all power will be sold at the same, cost-based price. One fundamental flaw in Santa Clara’s argument is that the Flood Control Act has nothing to do with rates for CVP power, which are governed by section 9(c) of the Reclamation Act of 1939, 43 U.S.C. § 485h(c). In any event, Santa Clara misconstrues PGandE’s argument. PGandE does not maintain that it offered a higher price for CVP power. PGandE’s position is that it was willing to offer better *terms* to the Secretary than Santa Clara. Even if the provision of 16 U.S.C. § 825s quoted by Santa Clara were pertinent, it is manifestly limited to the *price* of power. It says nothing as to other terms and conditions for which the Secretary might negotiate, such as an agreement to resell an equivalent amount of power at a later date.

Finally, Santa Clara turns to an opinion of the Attorney General, 41 Op. Att’y Gen. 236 (1955), construing the Flood Control Act of 1944. That opinion, which is more an *ex cathedra* pronouncement than a reasoned conclusion based on statute or precedent, deals with a statute passed after the Reclamation Act of 1939 at issue here and which had a different legislative history. More importantly, the opinion considers a different question than that presented by the case at bar. The issue faced by the Attorney General was whether, given the choice of a sale of power to a preference entity for resale to other preference customers or to a non-preference entity for resale to those same customers, the

federal agency seller had to give the preference entity purchaser a reasonable opportunity to arrange for transmission before entering into a contract with the non-preference entity. The opinion was that a preference purchaser should be given a reasonable opportunity to arrange for transmission, but if it failed to do so, the power could be sold to the nonpreference entity. *Id.* at 243-44. Assuming *arguendo* the correctness of the opinion, which we consider erroneous, the facts it considers are so different from those at bar that the opinion provides no guidance here. No banking was involved, the competing offers from the preference and nonpreference entities provided identical benefits to the government, and the ultimate distribution of the power among preference customers was not changed under either alternative.

Far from meeting the burden of establishing that the reading of the preference clause advocated by Santa Clara and the Court of Appeals is the only reasonable interpretation, Santa Clara’s legal arguments fail even to establish that the broad interpretation it espouses is itself a reasonable reading of the statute.

B. SANTA CLARA ERRONEOUSLY ARGUES THAT PGandE PROFITS FROM BANKING TRANSACTIONS.

Aside from the flaws in its legal arguments, Santa Clara’s brief in opposition suffers from a fundamental error of fact. Santa Clara argues throughout its brief that PGandE profits by its purchase of CVP power for banking. This argument, however, is directly contradicted by the only evidence in the record on the point. An uncontradicted affidavit in the record below establishes that CVP power purchased by PGandE for banking is resold to PGandE customers at cost. (R 614). There is no other evidence even remotely pertinent to the point. Santa Clara’s claims to

the contrary are mere unsubstantiated and speculative assertions.

The question of whether PGandE profits by banking transactions was first raised by the Court of Appeals. The trial court made no finding with respect to whether PGandE profits by the banking transactions. For reasons not clearly discernible from its opinion, the Court of Appeals, in reaching its decision on the application of the preference clause to banking transactions, asserted that CVP power banked with PGandE was "resold by PGandE to its own customers at a substantial markup." PGandE Certiorari Petition Appendix A at 19. This unsupported assertion is now relied on by Santa Clara as the basis for its argument. Brief in Opposition at 3.

The source of the Ninth Circuit's misapprehension appears to be the fact that PGandE's rates are higher than CVP's rates. The District Court noted this fact, PGandE Appendix C at 46. PGandE does not dispute it. However, the Ninth Circuit could not properly conclude from the fact that PGandE rates are higher than CVP rates that PGandE is reselling CVP power at a "markup."

CVP is but one of many sources of the power delivered by PGandE to its own customers. CVP power banked with PGandE is mixed with power from other, more expensive sources. The resulting mix is sold at a regulated, system *average* rate which directly passes through to PGandE's customers the cost savings obtained through power purchase transactions, such as the purchase of CVP power.* Thus, while all PGandE's customers (including Santa Clara) benefit from the purchase of CVP power by PGandE, PGandE does not itself profit from these transactions. There is absolutely no basis in the record or elsewhere to

support Santa Clara's and the Ninth Circuit's assertions that PGandE profits from banking transactions. The only record evidence establishes that PGandE does not profit from banking transactions.

Neither the Secretary of the Interior nor the District Court considered whether PGandE made a profit in reaching their conclusion that banking CVP power did not violate the preference clause. It was enough for them that banking was an essential element in a plan to meet the long term needs of selected preference customers. PGandE Appendix C at 58-59. In reaching a contrary ruling, the Court of Appeals injected this new consideration, regrettably misconstruing the record. Thus, apparently influenced by its erroneous assumption that PGandE profits from banking transactions, the Court of Appeals has rejected a reasonable administrative interpretation of the preference clause. That rejection should be reviewed.

A review of Santa Clara's arguments has revealed no basis for concluding that the Court of Appeals' interpretation of the preference clause is the only reasonable interpretation of the statute. Certiorari should therefore be granted.

II. The Question of Whether Retroactive Effect Should Be Given to a Court's Reversal of a Reasonable Administrative Interpretation Is Important and Should Be Reviewed.

PGandE's Petition For Certiorari further requests this Court to review the Ninth Circuit's ruling that past, completed sales of CVP power to PGandE are "void if unlawful," PGandE Appendix A at 33, under the Court's new interpretation of the preference clause. The broad question of whether and in what circumstances retroactive effect should be given to reversals of administrative interpretations of a statute is an important one. The line of cases

*See PGandE Petition For Certiorari at 13, note.

cited in the PGandE Certiorari Petition at 11, culminating in *Train v. Natural Resources Defense Council*, 421 U.S. 60 (1975), establishes the substantial deference given by this Court to administrative interpretations of a statute. That deference itself suggests that third parties such as PGandE should be able to rely on such administrative interpretations without threat of loss caused by a retroactive effect of contrary judicial interpretations.

Santa Clara's argument on the propriety of retroactive equitable relief in this case is plagued by the same errors of fact and law pointed out above—assumptions that PGandE profits from banking transactions and that banking is clearly unlawful. Only two new arguments deserve further comment.

A. SANTA CLARA CANNOT DISTINGUISH THE MOSER AND CORNIEL-RODRIGUEZ DECISIONS.

PGandE has argued that the Ninth Circuit's ruling, that past banking transactions are void if found to violate the preference clause, conflicts with *Moser v. United States*, 341 U.S. 41 (1951) and *Corniel-Rodriguez v. I.N.S.*, 532 F.2d 301 (2d Cir. 1976). See PGandE Petition at 16-17. Santa Clara attempts to distinguish the cited cases on the grounds that they involve a "sensitive question" concerning the application of immigration laws and that "unlike the instant situation there [was] no competition between applicants" for the federal benefits involved in those cases. Whether the sensitive question of retroactive relief arises from the immigration laws or reclamation law is hardly pertinent. As to the second purported distinction, there is, contrary to Santa Clara's argument, competition among applicants to get and keep immigration visas, see *Corniel-Rodriguez, supra*, 532 F.2d at 303, but the existence of competition for a federal benefit is not the issue. The issue

is whether agency actions on which PGandE justifiably relied are necessarily void because of a subsequent judicial decision that they were technically unlawful. See PGandE Petition at 16-17. *Moser* and *Corniel-Rodriguez* suggest that the answer is no.

B. THE ESCROW AGREEMENT DOES NOT AFFECT THE QUESTION OF RETROACTIVE RELIEF.

Santa Clara's concluding argument is that PGandE bargained away its right to object to retroactive relief by entering into an escrow agreement with Santa Clara. The argument misconstrues both the escrow contract and the problem posed by retroactive relief. Faced with the alternative of nonpayment of PGandE's bills to Santa Clara for power delivered to the City, PGandE agreed to allow Santa Clara to pay the disputed funds into escrow. The escrow agreement provides that the funds will be distributed in accordance with the final decision in this case. It does not waive PGandE's right to argue to the courts that equitable considerations preclude payment of the escrow funds to Santa Clara. Moreover, the problem of retroactive relief arises not solely from the sale of PGandE power to Santa Clara, the payment for which was placed in escrow, but primarily from the fact that PGandE has resold "banked" CVP power at cost to millions of different customers. Those sales cannot be rescinded and the escrow arrangement has no effect on them. In short, the escrow arrangement has nothing to do with whether the Court of Appeals' reversal of an administrative interpretation of a statute should be given retroactive effect.

III. The Questions Presented by PGandE Should Be Reviewed at This Time.

In the federal Respondent's brief in opposition, the federal government agrees with PGandE that the Court of Appeals erred in its construction of the preference clause, but concludes that the question should not be reviewed until after further proceedings on remand. We agree that the Court of Appeals' decision does not preclude the possibility that PGandE might ultimately prevail in this case. However, as explained in more detail in Part III of PGandE's Petition For Certiorari at 19-20, that fact does not preclude review by certiorari at this juncture, and the important reasons there stated for immediate review are not disputed by the government.

IV. Conclusion

Because the questions presented by PGandE's Petition are important to the further conduct of this case and to large numbers of people who receive power from CVP and other federal reclamation projects, certiorari should be granted.

Respectfully submitted,

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